MARCH 1955

The Mortgage Banker

The NYU-MBA Senior Officers Conference celebrates its tenth anniversary. Upper left, MBA Past President Milton T. MacDonald opens the initial luncheon session. MBA President Wallace Moir listens carefully as Dr. Roy L. Reierson tells the assembly where the money is coming from to finance the mortgages the industry will make. MBA Vice President Lindell Peterson presents Dr. George T. Conklin, Jr., vice president, Guardian Life Insurance Company of America, and Jules I. Bogen of NYU. Dean G. Rowland Collins gives MBA Secretary George H. Patterson and (right) Addison K. Barry, vice president, National Newark and Essex Banking Company, certificates evidencing attendance at all ten Conferences. It was the largest of the NYU-MBA meetings.

MORTGAGE BANKERS ASSOCIATION OF AMERICA · MBA · ORGANIZED 1914

in this issue

APPRAISAL OF THE MORTGAGE MARKET

IS THE 66-2/3% RATIO OBSOLETE?

1955 MBA Calendar

March 28-29—Southwestern Mortgage Clinic, The Mayo, Tulsa.

March 31-April 1—Southern Mortgage Clinic, The Dinkler-Tutwiler, Birmingham.

May 2-3—Eastern Mortgage Conference, Hotel Commodore, New York.

June 19-25—School of Mortgage Banking, Courses I and II, Northwestern University, Chicago.

June 19-22—Research and Educational Trust Fund Seminar, University of Michigan, Ann Arbor.

July 31-August 6—School of Mortgage Banking, Course I, Stanford University, Stanford, Calif.

October 31-November 3—42nd Annual Convention, Statler Hotel and Biltmore Hotel, Los Angeles.

» **FULL SOCK:** Since the end of World War II, Americans have saved $115 billion out of their personal incomes. This means that during the nine year period, 1946 through 1954, their total spending for consumption was $115 billion less than the total income they received.

Largest share of the savings total was kept in liquid form—cash, bank deposits, government securities, etc. Actually, individuals added about $65 billion to their holdings of this type during the period under review. Offset against this is an increase of $20 billion in consumer indebtedness, chiefly for goods purchased on installment. Thus the increase in liquid savings net of the increase in debt—was $46 billion.

In appraising the importance of post-war accumulations of liquid savings it must be remembered that they have been added on top of the liquid assets in the hands of individuals at the end of the war—amounting to more than $150 billion. Individuals now hold liquid assets of well over $200 billion.

The second most important of the uses to which post-war savings have been put is the purchase of insurance. Individuals invested about $38 billion in insurance during the years 1946 through 1954.

The Mortgage Banker

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PUBLISHED MONTHLY BY THE **MORTGAGE BANKERS ASSOCIATION OF AMERICA**

GEORGE H. KNOTT, *Editor*

Executive and Editorial Office
111 West Washington Street, Chicago 2

Washington Office
1001—15th St., N.W., Washington 5, D. C.

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Volume 15 **MARCH, 1955** **Number 6**

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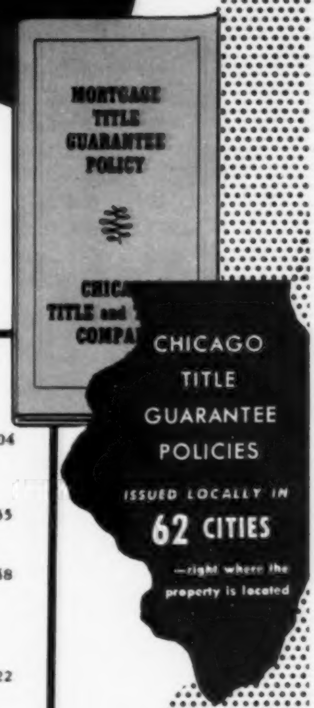
THIS EXPERIENCE AND STRENGTH

behind the title protection for

Your Illinois Mortgages



No other title protection is backed by such financial strength and experience as that of Chicago Title and Trust Company. This company has a century-long history of working closely with mortgage lenders, realtors, lawyers, subdividers, builders and investors—every type of owner or dealer in Illinois real estate.

Our sound financial responsibility and strength are indicated by our balance sheet as of December 31, 1954.

ASSETS

Cash		$ 4,033,595
Marketable Securities (at cost)		
U. S. Government Obligations	$ 6,151,892	
State and Municipal Bonds	14,246,175	
Other Bonds and Preferred Stocks	2,929,664	
Common Stocks	4,967,306	
First Mortgages	90,086	28,385,123
Securities Pledged to Secure Trust and Escrow Cash Balances		
U. S. Government Obligations		17,588,102
Total Marketable Securities (at cost)		$45,973,225
Other Assets		
Accounts Receivable (less reserve)	1,356,673	
Sundry Loans and Investments	688,380	2,045,053
Real Estate (at cost)		
Chicago Title and Trust Building Corporation	5,500,000	
Other Real Estate (less depreciation)	644,487	6,144,487
Stocks of Associated Title Companies (at cost)		1,373,521
Title Records and Indexes		1,600,000
Total Assets		$61,169,881

Unrealized Appreciation—Marketable Securities
December 31, 1954, $5,225,172
December 31, 1953, $2,782,419

LIABILITIES and CAPITAL FUNDS

Accounts and Taxes Payable		
Accounts Payable	$ 111,013	
Accrued Taxes Payable	2,750,691	$ 2,861,704
Cash Deposits as Indemnity Against Specific Title Guarantee Risks		2,834,335
Trust and Escrow Cash Balances, Secured by Pledged Securities		17,432,548
Reserves		
For Losses and Contingencies	4,726,959	
For Market Fluctuation of Securities	6,431,263	11,158,222
Capital Funds		
Capital Stock	$12,000,000	
Surplus	10,000,000	
Undivided Profits	4,883,072	26,883,072
Total Liabilities and Capital Funds		$61,169,881

Assets in the amounts provided by statutes of Illinois have been pledged to qualify the Company to do business and to secure trust and escrow cash balances.

On your larger loans, we reinsure for title companies in other states

Chicago Title and Trust Company

111 West Washington Street, Chicago 2

Springfield • Decatur • Danville • Rockford • Edwardsville • Ottawa

Powerful promotion delivers pre-sold buyers to United States Steel Homes Dealers

Life Magazine, Parents' Magazine, and United States Steel Homes, Inc. will go into each dealer's community to help him sell. Full color ads in *Life* and *Parents'* will shout the news to 7,000,000 readers that United States Steel Homes Dealers are holding Open House this month. These ads will urge prospective home buyers to watch their local newspapers for the Open House announcement . . . and to visit their dealer's demonstration homes.

HOME TOWN APPEAL

This nationwide announcement will be followed by *local newspaper* ads that will say, "The wonderful new homes you saw in *Life* and *Parents'* are right here in town. Come out to see them!" They will tell home buyers exactly when and where they can see a demonstration home.

Each dealer will have ready-made excitement and a ready-made crowd for his Open House. And before, during, and after the promotion he'll have the able assistance of United States Steel Homes District Representatives to help him with any problems—building, financing, or selling.

ABOUT THESE HOMES

All products of United States Steel Homes are designed and manufactured for use in VA and FHA insured mortgage properties. They are accepted by the Southern Building Code Congress, the Building Officials Conference of America, Inc., the Pacific Coast Building Officials Conference. Parents' Magazine has awarded them its seal of commendation. These are well-built homes, attractive homes, erected and sold by reputable local builders. Write for complete information.

COMING NEXT MONTH!

The Bride's House of 1955

as selected by

House Beautiful's Guide for the Bride

Watch Life Magazine, watch TV, watch Guide for Bride Magazine, watch your newspapers, your department stores —watch everywhere next month and you'll see the biggest home selling promotion of the year. It will sell more homes than ever for United States Steel Homes Dealers.

SEE The United States Steel Hour. It's a full-hour TV program presented every other week by United States Steel. Consult your local newspaper for time and station.

United States Steel Homes, Inc.

GENERAL OFFICES: NEW ALBANY, INDIANA

SUBSIDIARY OF UNITED STATES STEEL CORPORATION

Is Mortgage Debt a Cause for Concern?

ELSEWHERE in this issue are some observations from this year's MBA-NYU Senior Officers Course, the principal objective of which was to look at the proposition of whether or not the current building boom has stability. But what seems to be concerning more people these days is whether the fast-rising mortgage debt has in it a dangerous degree of instability.

There's no denying that it has gotten pretty big in a short period of time, but whether that's anything to worry about is something else. Final figures aren't available but mortgage debt on one-to-four family houses passed the $75 billion mark last year and will go to about $82 or $83 billion this year. The *Wall Street Journal* has taken a look at mortgage debt and come up with these statistics:

» It has climbed 295 per cent in nine years—by far the sharpest such rise on record.

» The debt is much larger in relation to after-taxes personal income than at any time except in the depression of the 1930's—when income was very low.

» At least four out of 10 new home owners have far less equity in their residences than ever before. And home buyers generally are contracting debt much farther into the future.

» Some 40 per cent or more of today's new home mortgages are being underwritten by the government.

» The trend has put more than 56 per cent of U. S. families in the home owner class, compared with 41 per cent just before World War II.

And in this rapid increase, it observes, can be found the factors which are causing the concern.

"Mortgage debt at the end of 1954 was equal to about 30 per cent of the $253.6 billion of income after taxes economists estimate individuals received last year. This is the first time the mortgage-debt-to-income ratio has ever been so high in a period of flush prosperity. In prosperous 1929 it was only 24 per cent.


FAST SERVICE
ACCURATE SERVICE
FRIENDLY SERVICE

"After the income boom of the 1920's collapsed, mortgage debt as a percentage of income ranged from 30 per cent in 1931 to as high as 37 per cent in 1933. Mortgage debt declined some in the early 1930's but income fell more sharply so the debt-income ratio climbed sharply. Income after taxes in 1933 amounted to only $46 billion—only a little more than half the 1929 income of $83 billion.

"As the business pace slumped, bringing about sliding income and soaring unemployment, a wave of foreclosures swept across the nation. In the five-year period 1931-35, annual foreclosures averaged 230,000. In before-the-bust 1928, foreclosures amounted to 116,000. The number of foreclosures in 1954 is estimated at only about 25,000.

"Mortgage debt last year climbed faster than did personal income. A $3 billion boost in income after taxes during 1954 was equal to about a 1 per cent climb; mortgage indebtedness on the other hand, rose $9 billion or nearly 14 per cent."

But there are other ways to look at the proposition. George C. Johnson, president of the Dime Savings Bank of Brooklyn, which originates and holds more home mortgages than any other savings bank in the world, believes there is no reason to be concerned and that the debt rests on a solid foundation.

"The $75 billion represents a sum less than 21 per cent of the present rate of gross national product. The amount is equal to 27 per cent of the federal government's debt, and happens to exactly equal the expenditures of the federal government in the 1952-53 fiscal year.

"Furthermore, mortgage debt is being paid off. Regular payments on mortgage principal and interest now amount to about 2.6 per cent of all spendable income, compared with 2.7 per cent in 1939—a year in which mortgage debt was not considered excessive.

"Economists who question the rise in home mortgage debt apparently overlook the fact that the population is increasing at a very rapid rate—something like 30 million in the past 15 years. But of more importance is that production of goods and services, termed gross national product, has more than doubled in that period.

"Home mortgage debt is growing simply because more people than ever before are able to buy homes without financial hardship. This is possible because the nation's high rate of production means full employment with high incomes, plus the fact that we now have the most liberal mortgage credit policies ever devised."

The federal reserve can be counted among those doing some worrying; and an agency spokesmen said frankly, at the time the new 3 per cent 40-year bond was announced, that the board "had taken a look" at the rapidly-rising stock market and construction boom and concluded that the new financing might act as a "slight offset" to these trends.

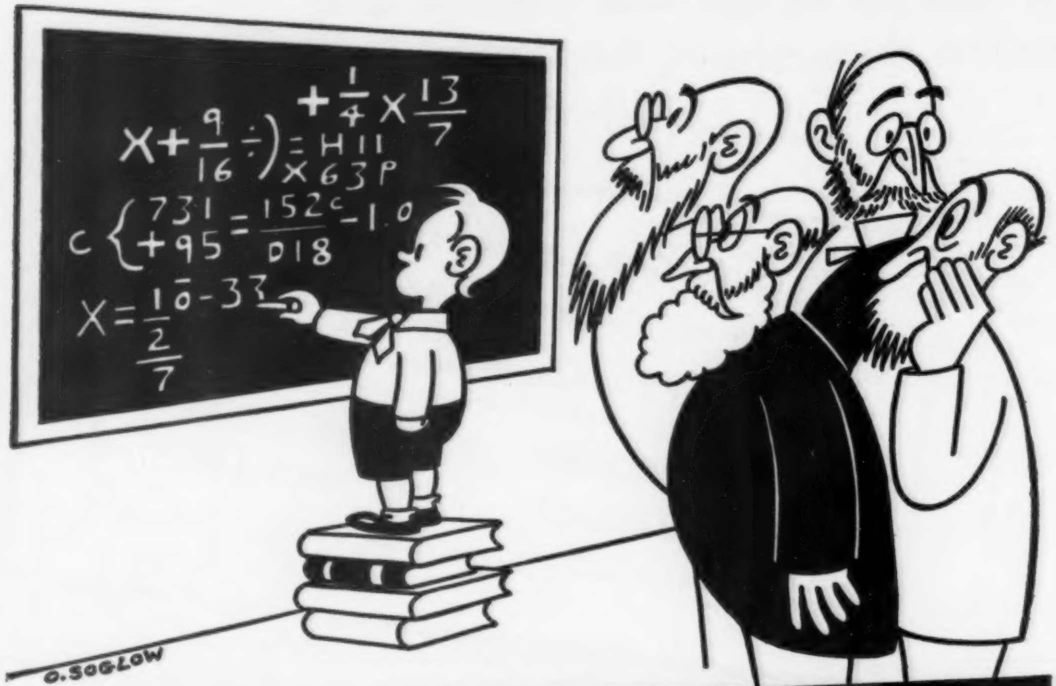
Whatever the answer, the outlook at the start of 1955 is for another record year in building and thus mortgage recordings. And it will take a lot of money. The Home Loan Bank Board estimates the home financing needs of the country this year at more than $16 billion.

"The 1955 projection on mortgage-financing needs requires the investment of more than $16 billion in new funds in the small home field, exclusive of approximately $8 billion required for the refinancing of a part of the present mortgage debt," the Board said. "Of the $16 billion, an estimated $12 billion may be required to finance the purchase of newly built houses and $4 billion for additional loans on existing homes.

"Beyond their present resources, the nation's financial institutions and other lenders are in a strong position to handle this need for mortgage credit for they will receive during the year nearly $7 billion in monthly payments and prepayments from borrowers on their mortgages outstanding."

›› MORE ROOM: New, one-family, non-farm houses constructed during the first quarter of 1954 averaged 1,140 square feet of floor area and were about 5 per cent larger than the homes built in 1951, an analysis by the Labor Department shows. Two-thirds had three bedrooms or more.

During 1946-54, Americans put $13 billion of their savings into their homes. Value of homes built since World War II is about $75 billion.



You'll be surprised at these figures!

Thanks to the thrift of employed Americans and the cooperation of 45,000 companies which have enrolled more than 8,000,000 men and women in the Payroll Savings Plan—

- Sales of E and H Bonds (H Bond is the current-income companion piece of the E Bond, sold only to individuals and purchased in larger denominations by executives) in 1954 totaled $4.9 billion, a new peacetime record.

- Sales in 1954 exceeded *all redemptions* in that year of matured E Bonds and unmatured E and H Bonds by more than $400 million—the highest net amount since 1949.

- Cash value of E and H Bonds outstanding reached a new record high of $38.2 billion, a gain of $1.5 billion in 1954.

- This $38.2 billion cash holding by individuals represents 14% of the national debt. Never before has the national debt of our country been so widely held.

These figures, far more effectively than mere words, tell the story of The Payroll Savings Plan—why it is good for America, why it is good for business. If you do not have the Plan, or if you have the Plan and your employee percentage is less than 50%, phone, wire or write to Savings Bond Division, U. S. Treasury Department, Washington, D. C.

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The Mortgage Banker

THE INFLUENCES AT WORK IN THE MARKET FOR MORTGAGES

There has been a little change in the financial weather and it has some significance in the volume of mortgage money available and the demand of investors for loans

IN THE February issue of *The Mortgage Banker,* in the department on Vital Statistics, it is pointed out that "new construction hit an all-time peak for any December—and a seasonally adjusted annual rate in December of over 1.4 million new starts." In the same page it is noted that life insurance companies, in the first 11 months of 1954, acquired 58 per cent more FHA and VA loans than in 1953. A third item of interest is that the Standard and Poor's U. S. government long-term bond price combined index for February, 1955 will be about 102½ as compared to 105-1/3 in March of 1954. These statistics are cited, not as proof of any present or future market condition, but rather as a backdrop for our mutual consideration of the seemingly widely accepted optimistic future for residential building in 1955 and of the ability of the mortgage market to absorb increasingly greater offerings during this year. In this across-the-page conference, I want to comment on these various situations: general business conditions, the bond market, new long-term government bond offerings, the federal reserve and a flexible monetary policy, life insurance company mortgage commitments, an accelerated nation-wide residential building program, and some political possibilities. To sum up, I should like to tie these thoughts together into a conclusion that might be of value to each one of us and to our industry.

Robert H. Pease

»» BUSINESS: There is increasing evidence that the first six months of 1955 should be a period of excellent business. Department store sales figures are ahead of last year; and it is important to note that wholesale prices for December, 1954 were below November's which indicates that our business recovery is not due to an inflationary condition. Industrial production in December was above the previous month and the previous year. Automobile production is at a furious pace and sales are good. Wages are at a high level and unemployment is definitely better. Personal savings continue high and corporate earnings in 1954 were excellent.

I think all can agree that the general business outlook is good.

By **ROBERT H. PEASE**

The prospects for good general business, another record-breaking year in construction and for a big volume of mortgage loans never looked better than at this time. Yet the outlook, as far as the mortgage industry is concerned, is not one of complete optimism if one will carefully study and evaluate the basic factors at work. That's what Mr. Pease does here, take each one of these influences separately and assess its significance for lenders and investors. He is chairman of MBA's Research Committee this year, a member of the Executive Committee and president of the Detroit Mortgage and Realty Company.

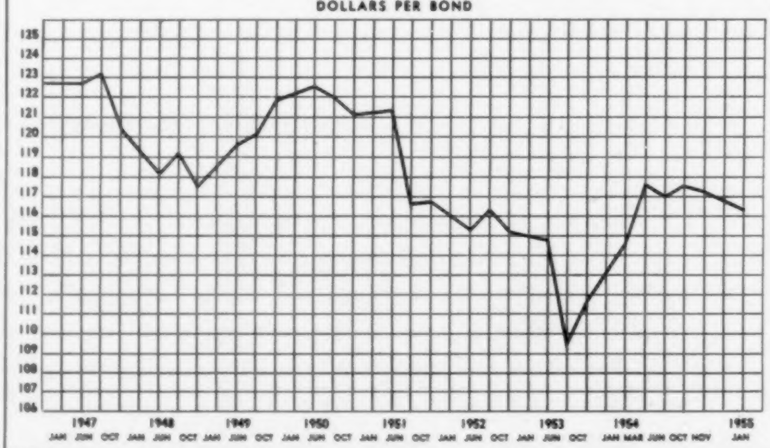
>> BOND MARKET: The bond market is beset by uncertainties. The pending volume of offerings from municipalities in 1955 appears large. Road building programs, Korean bonus issues, school building financing, together with normal municipal finance requirements, seem to add up to a sizable increase in offerings this year. Corporate issues appear to be in for another large year. Until the first week in February there was the uncertainty of the terms of the long-term government bond issue which finally appeared as a 40-year 3 per cent issue. Much of the concern regarding this issue was removed when it appeared as primarily an exchange offering and not as a siphon for new money. The chart on page 18 indicates that high-grade corporates have performed quite well although they are lower than any time in the previous year. The decline of this index is only from 117¾ in March of 1954 to 116-1/3 in January 1955. While we can agree that the bond market is not seriously weak, it does contain elements of weakness.

>> GOVERNMENTS: On February 9, Secretary Humphrey announced that the 40-year 3 per cent issue was accepted by 73 per cent of holders of a 2⅞ per cent, 20-year bond called for redemption on March 15. Only holders of that issue were eligible for the new 40-year bond. Several factors in this situation are significant. Considerable concern was felt in the financial markets before the terms of this issue were announced. Bond buyers remembered the kick given to the market in the Spring of 1953 when the highly controversial 30-year 3¼'s were announced. That issue had one very important difference from today's 40-year bond: the 1953 issue was for the purpose of attracting new cash from other investment opportunities while the January, 1955 issue was only for exchange. This present issue is the longest term of any government issue since 1911, when a 50-year bond helped finance the Panama Canal. It now appears that the treasury is using this exchange device to accomplish its determined objective of placing our national debt on a much longer term basis. This last operation alone lengthens the average maturity of the marketable debt from four years and two months to four years and nine months.

Another important factor was the statement by a treasury spokesman that it could be expected the treasury would enter the long-term area on an average "once or twice a year." The next opportunity for a long-term issue might well be this Fall. Thus the government bond market continues to be a potent force in our overall investment picture. The chart on page 19 depicts the decline in long-term government bond prices from 105½ in March 1954 to about 102½ in February 1955. This last index is far above the 95 index of June 1953 and indicates that the government market has performed well in spite of the uncertainties it has faced in the last six months. We can agree perhaps that the government bond market has weakened noticeably since March, 1954, that there are still some potent forces operating in it, but that it is not, at this stage, in the serious condition it was in the second six months of 1952.

>> RESERVE POLICY: This may well be the most important factor in our search for clues to future market conditions in our industry. I believe we are operating under a flexible monetary policy and that we will continue to do so for many years. The apparent philosophy of our present monetary policy is to use it as "an instrument for contributing to our objectives of economic growth and high levels of employment without inflation." This is quoted from Frazar B. Wilde's excellent article in the February issue of *The Mortgage Banker*. To know the intentions of the monetary policies of the federal reserve board is to know the future of our mortgage market. This we do not and cannot know in advance. It is dangerous to guess, but guess we must. There is a strong prevailing opinion that the federal reserve is concerned over the credit spree which has existed for some time in the 30-year, no down payment home mortgage market. The current volume of residential starts forecasts building of sizable proportions. One break on this situation would be through a temporary but firmer monetary policy. The government bond market may be indicating that policy. I am not convinced that we face any such severe change in monetary policy as occurred in early 1953—but the climate is a bit chilly. Every Spring I go trout fishing with a friend who has lived on the Pere Marquette River for more than fifty years. He always catches trout, while many of us come home "skunked." His constant explanation is that you should watch for signs in river, weather and feeding conditions. He can never prove why the trout are going to feed at a certain time or place, but he certainly has the right feeling most of the time. So with our problem. We cannot prove what the policy of the federal reserve is, but we must acquire some ability to read the signs. The government bond market, the rediscount rate, the rate on short-term bills, the availability of bank reserves, when all these are added together they provide some guidance to monetary policy. This is where we may not reach an

STANDARD & POOR'S HIGH-GRADE CORPORATE BOND
COMBINED INDEX
DOLLARS PER BOND



agreement in this discussion; but it would be my guess that the easiest mortgage credit found in long-term, no down payment loans will be curtailed. Mortgage credit will not be severely curtailed but it may well be trimmed a bit.

» INSURANCE COMMITMENTS: The very existence of the mortgage banker's market is the ability of our life insurance companies to maintain a relatively constant flow of funds into the market under normal business conditions. This flow will necessarily vary with competing investment opportunities, but a repetition of the 1951-52 mortgage market would be disastrous. We must not again have insurance companies "going out of the market." Their flow of funds is predictable to rather narrow limits by the very nature of their business; and it is essential for both investor and originator that these funds be allocated in as steady a stream as possible. This is a joint responsibility of mortgage banker and insurance company. They should be kept constantly informed by us as to market conditions and we, in turn, should know their requirements and objectives. Our objective is not necessarily to place every loan on any basis that we can. It is to counsel and advise our builders as to mortgage market conditions and insurance company requirements. We should be more mortgage bankers and less mortgage brokers. We should do our best to help our insurance companies keep this money plan on an even keel. High loan premiums, or large discounts, are both signs of an unbalanced mortgage market. We must constantly strive to increase the flow of mortgage money, both from existing as well as from new channels, but we should do it within the framework of the then existing market conditions.

Some institutions are apparently nearing an excessive commitment position in mortgage loans. We must, as an industry, help to prevent any continuation of this condition. It probably is not now in a dangerous position, but without sensible restraint it could become a matter of concern. We are mortgage bankers operating as teammates with large financial institutions and we should provide the interchange of information which makes such a partnership so valuable.

» NATION-WIDE BUILDING: In 1954, we had over 1,200,000 new starts; we hit an all-time peak in December for any year and January likewise was a record month. The *Wall Street Journal* on February 7 headlined "Many Builders Plan Spring Dwelling Starts Above High 1954 Rate." This brings us face to face with the problem of what to do and say to the builder—an outstanding example of American initiative and enterprise, but also a born optimist. Here again we may have a cleavage in our views, but the previous observations, if valid, would indicate that caution and some restraint are in order. No golfer shoots par every day and no money market stays unrestrained forever. We can be of greater service to our clients, to our principals and to our industry if we communicate to our borrowers whatever caution we feel is warranted by money market conditions. The present market seems to have many signs that free and easy credit may not be available, particularly in the no down payment, long-term loans.

» POLITICAL POSSIBILITIES: The year 1956 is a presidential election year. That is of considerable significance for it could be a natural desire for a political party to wish that it be a year of full employment and increasing business activity. It would be unfortunate if the present high rate of building activity "ran out of gas," for construction is a bulwark of our entire economy. Many are forecasting that the high level of home building starts is not excessive, but this opinion is certainly not unanimous. Should this volume of building be determined to be either inflationary in trend or excessive as to the demand, we could well have some brakes applied. We should not overlook some elements which exist in the political arena regarding an unrestrained volume of building. The final evaluation is in the shift in the Kremlin, Bulganin's replacing Malenkov as Prime Minister and Marshall Zhukov's appointment as Soviet minister of defense. This could mean a boost in our defense spending, a change in tax policies and new monetary requirements. These require considerable thought and more information is necessary than is now available. At least it indicates that a major policy change has been made by the Soviet Union and we must assess its probable effects upon our economy.

In this discussion we have explored varied channels of our business and, in doing so, have brought into focus problems which we might have overlooked in our busy daily lives. Living in a period of flexible monetary policy as we are, we find some elements in the bond market, in the long-term government bond market and in the high rate of building activity which may cause us to reflect that changes are in the making and that a wise course would be to counsel against rampant optimism by our builders. We can agree that an even

(Continued on page 49)

STANDARD & POOR'S U.S. GOVERNMENT LONG-TERM BOND PRICES

Burns on the BOOM IN BUSINESS

If you're worrying about anything, businessmen, stop. This is a time for optimism, a time when your outlook for the future was never better. That's, in essence, what Mr. Burns has to say here and, when he says it, it becomes a sort of official statement because he's Chairman of the President's Council of Economic Advisers and thus the principal spokesman of the government's economic viewpoint. But he says again, as he has in the past, that the federal government is going to make it its business to forestall a slide in business.

By **ARTHUR F. BURNS**

IN 1944 our nation devoted over 40 per cent of its total production to the war effort. As the war approached a close, it was feared by many that the demobilization of the armed forces and the curtailment of military production might be followed by an economic collapse which would bring failure to many thousands of businesses and unemployment to many millions of workers. This anxiety about the ability of our economy to function smoothly upon the return of peace was natural at the time.

Arthur F. Burns

As events turned out, the fears proved unfounded. In the first quarter of 1945 expenditures on national security were at an annual rate of $91 billion. Two years later the corresponding expenditures were only $14 billion. This huge drop in military spending did not cause any significant unemployment. Some women, youngsters, and elderly workers left the labor force voluntarily. The others who were released from defense plants or the armed forces were quickly absorbed in private employment. As the nation's military expenditures declined, the private economy kept expanding. By the first quarter of 1947, civilian spending had more than offset the $77 billion drop in military outlays.

In 1949 our economy met its second test of the postwar period. When a recession got under way in the fall of 1948, the stagnationists again proclaimed that a depression was in the offing. They argued that the backlogs of demand which had accumulated during the war were already exhausted, that business firms no longer needed to spend large sums on their factories or shops, and that consumers were so well stocked with goods that some time must pass before they would again be inclined to spend money freely.

Once again the fears of economic depression proved unfounded. After a moderate inventory adjustment which lasted about a year, our economy resumed its vigorous expansion. Then came the Korean conflict, which piled heavy military spending on top of a high rate of civilian spending and forced many of our industries to operate on an overtime basis.

Last year the strength of our economy was subjected to its third major test since the end of World War II. During the early months of 1953, production, employment, and the flow of incomes were expanding at a fairly rapid rate. Total spending by consumers kept pace with the increase of their incomes; however, spending on commodities, as distinct from services, tapered off. In view of this development, many businessmen deemed it prudent to reduce their inventories. The effort to bring inventories into better balance with sales led to a decline of industrial production, which became visible after July 1953. Within a few months total production fell below the level of the nation's consumption, and an inventory recession of the sort that had occurred in 1948-49 was under way.

This readjustment of inventories was seriously complicated, however, by the ending of the Korean conflict, which was soon followed by a sharp reduction of military expenditures. Between July 1953 and March 1954 industrial production fell 10 per cent, with the largest reductions occurring in the output of steel mills, ordnance establishments, shipbuilding yards, automobile plants, and other branches of durable goods production. Unemployment in March 1954 reached 3¾ million or nearly 6 per cent of the civilian labor force. Once again, a cry of impending depression arose. After all, it was urged anxiously, we no longer had any widespread shortages, such as saved the economic situation in 1946. Nor did we have continuing unsatisfied demands for automobiles and housing, which had bolstered the economy in 1949. Therefore, so the argument ran, the only way to prevent depres-

sion and mass unemployment was for the government to step in, undertake new and extensive spending programs, and finance these with borrowed money.

These counsels were not heeded. Instead the government concentrated on easing credit conditions, on reducing taxes, and on building consumer and business confidence. The depression that so many feared or expected did not develop. As early as the fall of 1953, a recovery began in the financial markets. By the beginning of 1954, there were already abundant signs of increasing preparations for larger private investments. More important still, retail sales resumed their rise, exports increased above the preceding year's level, and the ratio of inventories to the sales of both manufacturers and distributors began declining. By the Spring of 1954 the decline of production abated and the nation's economy stabilized at a level somewhat below that of the peak of 1953. The gross national product, which expresses the dollar value of the total output of goods and services, was at an annual rate of $356 billion in the first quarter of 1954 and it remained at virtually this level in the second and third quarters.

This favorable turn of events quieted fears of depression. But now a new cry arose, reminiscent of the doctrine of economic maturity which flourished in the 1930's. Our economy was moving, we were told, into an extended phase of stagnation. Production would remain at present levels, or at best rise only a little. In the meantime, the labor force would increase while labor requirements per unit of output would diminish. For both reasons, unemployment would steadily increase unless the government got busy and increased its spending programs, or better still, both increased spending and reduced taxes once more.

This was again a mistaken diagnosis, and there could be little doubt that it was wrong if one only had eyes and believed what he saw with them. The annual rate of federal spending, which had been declining at a rapid pace for some time, dropped another $7 billion between the first and third quarters of 1954. In the meantime, every other major category of expenditure increased—consumer spending, private domestic investment, foreign investment, and state and local outlays. Thus, the stability of the gross national product during a large part of 1954 did not mean that our economy was standing still. On the contrary, it meant that the civilian part of the economy was forging ahead, expanding its operations, and taking up the slack caused by the continued reduction of federal spending. By the early fall of 1954 the civilian economy had gathered sufficient strength not only to compensate for the continuing decline of federal spending, but to lift the total production and employment of the economy. The low point of the post-Korean recession was reached last August. Since then our over-all economic activity has again been expanding.

Past Errors in Judgment

The basic reason for these past errors of judgment is that the anxious mood of the 30's, its lack of confidence, its servile dependence on government, its distrust of the expansive power or resilience of private enterprise—all these yardsticks are no longer applicable to our time. The face of our economy has changed under the pressure of powerful forces of economic growth.

Advances in science and technology are, and have been, proceeding at a marvelous pace. The plant and equipment of industry are being constantly modernized to escape the drag of obsolescence. The South is industrializing rapidly. The population of the country is growing vigorously. New techniques of consumer and business finance are developing. Home ownership is growing, the range of middle-class incomes is increasing, the pace for competition is quickening, and mass markets are emerging to match mass production for an increasing number of commodities. Beyond these developments in the private sphere, it is now the established aim of the Federal Government to pursue monetary, fiscal, and general housekeeping policies that will promote a stabler rate of growth than we experienced in the past. Public officials, as well as the general public, are re-learning the old lesson that the government can create an atmosphere that is favorable to a high rate of economic activity by encouraging private initiative, by curbing monopolistic tendencies, by promoting the flow of capital into risk-taking channels, and by carrying out as much of its own work, as is practicable through private enterprise.

Neither the theories nor the prescriptions of policy that ruled during the 30's, whatever their significance may have been at the time, are well suited to the conditions of today. During the 1930's the theory emerged that businessmen were a dynamic but rather troublesome group. In the first place, it was said that their investments were low because our mature economy no longer provided extensive opportunities for profit. In the second place, it was said that their investment outlays fluctuated violently because they rested on emotionally tinged estimates of a precarious future. Consumers, on the other hand, were pictured as a placid group, as creatures of habit whose economic behavior was determined by their current incomes, and whose collective prosperity to spend or save could therefore be counted on with mathematical assurance. Whatever validity this theory might have had in the 1930's, it is something of a caricature of the businessman and of the consumer of the 1950's.

The horizon of the typical businessman of today extends much further than that of his predecessor a generation ago. Today's businessman is apt to think in more ambitious, longer-range terms. He watches his current sales and operations closely, but his principal aim as a broad rule is to build for the future, so that his firm will strengthen or at least maintain its competitive position five or ten years later. Hence, the managers of modern firms spend huge sums on research and development, they carry on advertising campaigns that will generate sales in the years to come, they embark on extensive programs to enlarge or modernize their plant and equipment, they maintain these capital expenditure programs as far as possible even when sales drop temporarily, and they judge the business acumen of their competitors by these yardsticks as much as by profit-and-loss statements.

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$64 QUESTION

$66\frac{2}{3}\%$ RATIO OUTMODED?

Should STATE LAWS GOVERNING LOAN TO VALUE *Ratios Be Modified?*

By **LINDELL PETERSON**
Vice President, Mortgage Association of America

IS IT time that something be done to remove the impediments in state legislation that retard private institutional lending and increase dependence upon the federal government? More specifically, should the time-honored ratio of $66\frac{2}{3}$ per cent of loan to value be increased and thereby modernized?

Lindell Peterson

Yes, the question is controversial. There are, no doubt, arguments pro and con. But why not air these viewpoints and attempt to arrive at some sound conclusions as to what should be done in the matter? Why continue to ignore a situation that is daily becoming more acute? Why go on tolerating restrictive legislation if it can be proved that such restrictions are entirely outmoded and that the various state statutes can be modified with safety to investor as well as borrower?

Any experienced mortgage banker competing today with the lending policies of other institutional investors should acknowledge that the conventional loan system is not adapted to the present-day housing market. Right or wrong, it is amazing that after 20 years of national experience with FHA loans, the states have not been pressed to permit this kind of lending without the FHA insurance or subsidy of credit. Is it possible that insurance companies and other investors are resigned to ultimately rely solely on the federal government for mortgage investments in the housing field?

Opponents to a change in statutory limitations might argue that the long-term, high percentage monthly amortized loan has not as yet weathered a depression. However, how well did the existing restrictions weather past depressions? Let's review the record.

In the 1920's we probably had about as much 100 per cent financing through second and third mortgages and contract purchases as we have now through the veteran guaranteed program. The low ratio on first mortgages has never saved us from trouble. The spurious methods of financing commonly resorted to before the last depression and still resorted to when, due to yield, there is a shortage of funds for FHA and VA loans, have been proven hazardous for both borrower and lender. Such financing is cumbersome and expensive. Certainly such loans cannot serve in as satisfactory a way as a simple first mortgage that covers all the borrower's requirements.

The conventional loan limitations set forth in the various state statutes were conceived and enacted years prior to the present widely used monthly payment loan, requiring a monthly deposit for taxes and insurance. When the laws were enacted, loans on residential properties were made for a term of three or five years, providing for little, if any, amortization during the term. Interest was usually collected semi-annually. Under this arrangement, a mortagee seldom had knowledge of a default until a period of six to eight months had elapsed. Servicing the mortgage, as we do today, was uncommon.

In prosperous periods during those years, the incongruity of making a short-term loan for a purpose that required a long term for repayment was not always apparent. Renewals were usually possible, frequently without curtailment at the end of the three- to five-year loan period; and, in some instances, an increase in property values actually served to reduce the apparent proportion of loan to value. Depressions, however, brought disaster when such depressions coincided with due dates; and the spectacular waves of foreclosures attending such major economic decline were eloquent testimony that the short-term mortgage loan was dangerous for lender as well as borrower.

In spite of these revolutionary and constructive changes in our mortgage pattern, no state has materially modified its laws governing institutional investment to increase loan to value ratios, except when mortgages are insured or guaranteed by the federal government. Is it not time that insurance company lenders, presently so seriously handicapped, forcefully call to the attention of the various state insurance departments the archaic character of the state mortgage and investment laws that govern conventional lending in the residential field?

Here are just a few recent strictly personal opinions on the subject expressed by insurance company executives and mortgage bankers.

Is the conventional loan system of insurance company lending adaptable to the present-day market? How can it hope to compete with the more liberalized methods of other lenders now? The answers seem to be that it is not entirely adaptable, that it isn't competing very well. The trend toward government-backed loans continues at such a pace that conventional underwriting is rapidly becoming a lost art. State loan limitations were conceived and enacted before our present-day monthly amortized loan enjoyed the wide usage it does today. Isn't it time for modernization in this regard? Here is a problem that strikes at the very heart of mortgage lending and affects every lender.

Clearly, some other way was needed to protect the lender from the hazards of the mortgage business. At the same time, a method was needed that would allow the borrower to repay his loan by small payments spread over a longer period of years. The experience of some savings and loan associations, mutual savings banks and insurance companies with amortized loans indicated their greater safety. It was also obvious that the longer the period over which amortization could be extended, the lower would be the individual payment, and the easier the ability to meet it. Thus, a general acceptance of the principle of repayment by regular amortization would provide an important means for advancing the dispersion of land ownership.

Insurance Company Executives

1. "Existing laws attempting to limit mortgage loans made by insurance companies to amounts not in excess of 66⅔ per cent of the fair market value of the securities are unrealistic. I am convinced that any legislation which limits a loan to a specific ratio of the amount of the appraisal of the security will not accomplish the purpose intended.

   "Common sense, coupled with experience, is the primary requisite for the determination of the amount that can be loaned with safety against any given parcel of real estate, and they must be used to evaluate all characteristics affecting the security, as well as the intangible and contingent factors of the transaction. Not the least important feature will be the effect of the foreclosure laws of the community in which the security is located, both as they may create out-of-pocket costs or costs resulting from redemption rights to the borrowers."
2. "One of the evils arising from the 66⅔ per cent ratio which definitely came home to us in the 1930's, is the invitation for second and third mortgages above the first mortgage on one-family residences. I understand that was one of the major reasons for FHA loans being originally permitted at 80 per cent of the appraised value. That is another reason for the statement that if we are going to compete with the savings and loans we should be permitted to lend the same amount."
3. "This is a subject which should be given some consideration under present conditions. There is no doubt that the present requirement places insurance company lenders at a competitive disadvantage as far as conventional loans are concerned. I do not see how this competitive factor could be eliminated entirely. However, I would be in favor of seeing a revision to something like a 75 per cent limit."
4. "While I fully appreciate the investment problems of life companies and their correspondents in obtaining conventional loans for them, I am not in favor of an

increase in the statutory limitation of 66⅔ per cent. The long term, high percentage, monthly amortized loan has not as yet weathered a depression. Hindsight always being better than foresight, we can now say that we should have been making high percentage loans since 1935. We are today, however, automatically nearer the end of a cycle of rising values than we were yesterday.

"Naturally, we are foolish if we attempt to compete with the ratios of insured and guaranteed loans for we can acquire these loans at substantially the same yields as on conventional loans. The fact that some of our savings and loan friends choose to loan 80 per cent and may be able to make 90 per cent ones should not lead us into the same error. During the last depression, in at least the territory where I was active, they had far more difficulties than other lenders. I know the correspondents, as well as the life companies, wish to hold future headaches to a minimum."

Originators' Viewpoints

Mortgage Bankers

1. "If this ratio is not increased, the mortgage banker will be driven out of conventional loans in the residential field. Our operations have reached the point where it is completely foolish for us to press for the acquisition of conventional loans on dwellings. We take them gladly when we get the chance, but we have stopped pressing for them. We find we cannot compete. I am convinced that there is very little, if anything, mortgage bankers can do to get state laws changed without enthusiastic backing of the lending institutions themselves."

2. "Under the former system of non-amortized mortgage loans, 50 per cent to 66⅔ per cent of appraised value was in most instances a necessary limitation for safety. Possibly on non-owner occupied residences and commercial property under major lease an 80 per cent maximum should be sufficiently safe for fully amortized loans.

   "True, not all conventional loans should be made at the maximum level. However, that should be left to the judgment of the investor. Time has proven that limitation of loan amount in itself is no cure-all for otherwise unsound loans. Due to the many other aspects of mortgage lending involved, the insurance company investor should not be unnecessarily hampered in obtaining a sound mortgage portfolio by unrealistic maximum loan amount limitations that eliminate him from competition with savings and loan associations or other institutional investors.

   "Wisely, or otherwise, some have attempted to keep themselves competitive within the confines of existing state laws by accepting unrealistic appraisals. Although the actual mortgage loans made under such methods will probably prove sound, it is obviously a devious basis on which to make mortgage loans and one that could easily get out of hand due to not being based on fact."

3. "It would appear that if, at a much earlier date, some provisions had been made where, if they chose to do so, the insurance companies could exceed the two-thirds ratio conditioned upon some percentage of the earnings being set up in reserves until such loans had been amortized down to some level below two-thirds of the value, these investors would have made many loans on a conventional basis, which were made instead with some government agency's insurance or guarantee."

The Laws Are Obsolete

4. "That these old state laws are obsolete, there is no doubt; and we should undertake to obtain the cooperation of insurance companies, as well as state insurance commissioners, in an effort which is especially important in view of

the present policies of the federal savings and loan institutions, and the effort they are now making to obtain authority to make 90 per cent loans. With this present authority they are making 80 per cent loans, and if they obtain authority to make 90 per cent loans, I suppose we can expect them to make 100 per cent loans."

Restrictive legislation was enacted by the states primarily for the protection of policy holders whom the investors served in a fiduciary capacity. The question is: because of the improvement in our method of financing residential loans by the acceptance of the principle of repayment by regular monthly installments fully amortizing the loan during its term, should not the legal loan to value ratio be set at a more realistic level or done away with entirely?

Possibly ideal legislation that would be a solution to the existing problem would be the adoption of standard legislation, charging those responsible for the investment policies and activities of all lending institutions with the duty of providing an initial margin of security sufficient to cover accruals during the default period, cost of security in the event of default, acquisition and subsequent sales expense, and to maintain such margins throughout the term of the investment by requiring adequate schedules of amortization. The phrasing of such legislation would be a problem, but is not beyond the realms of possibility.

Foreclosure Another Problem

The foregoing proposal brings to mind another problem confronting the mortgage investor, namely, the wide variation in the state foreclosure procedures. This factor would be a major obstacle in establishing a possible ratio of loan to security value that would be practical in all states.

A widespread revision of state laws covering foreclosure has been talked about for years, yet little headway has been made. Certainly, the variable and often onerous provisions of the state laws covering foreclosure are one of the reasons why conventional loans do not move freely in a national market.

Committees of the American Bar Association, stimulated by federal attorneys, over a decade ago prepared a series of model laws on this subject which have been recommended for enactment by state legislatures. No strong group, thus far, has evidenced sufficient interest to pursue the matter. The instruments are ready for use whenever the will to move is aroused. Is it not time that we generate that will?

By emphasizing the purposes that all groups have in common and by uniting on the accomplishment of these common objectives, the lending fraternity can assume the leadership that has been surrendered to government and can demonstrate to the people its determination and ability to serve their needs for credit with broad vision and vigorous initiative. . . . and best of all, without resorting to government subsidy through mortgage insurance.

Voice of the Home Office

Sloppy Applications a Headache

This official of one of our largest life insurance companies hits correspondents pretty hard when he says that some of them fail to proof-read their applications. Result is endless delay, extra work for both the investor and the correspondent.

WE DO not believe that many correspondents realize the lost time and irritation that develops in the home office and, subsequently, in the correspondent's office, through failure to *proof-read* their mortgage loan applications before sending them in for consideration.

It is difficult to visualize how many cases are submitted lacking even the minimum necessary information, and with typographical errors, absence of necessary photographs or wrong photographs attached to the application.

Every time this sort of thing happens it necessitates taking the case out of what we would call "the assembly line," and either writing, wiring or telephoning for the necessary information or explanation. The trouble, of course, is that these cases cannot be acted upon until the missing information has been obtained; and the delay is often a serious matter, particularly where the borrower has made arrangements to buy a house, and confirmation of his loan may be necessary before he can close.

Similar difficulties, but in a more exaggerated form, arise when errors are made in the preparation of papers sent to the lender for disbursement. In cases where there are typographical errors or omissions, our attorneys must clarify the matter before they can approve disbursement. The delay, incidental to having the information corrected, means a very material cost since the lender cannot get the disbursement made to start the investment earning interest. The correspondent frequently has to explain to the banks, through whom he makes his interim financing, why the payment was not made on the date expected.

In any substantial volume of business the most numerous errors are generally typographical or those caused by oversight; but, where the papers are concerned, it is surprising how many times the note is not endorsed before being forwarded, or the assignment is not executed and acknowledged, etc. Perhaps the principal delay occurs when neither the borrower nor the correspondent is absolutely certain of the plot dimensions and then, when the survey is obtained, it is found that variances exist. These variances in width or depth are usually not serious; but, if they exceed the tolerance permitted under the FHA or VA regulations, a waiver has to be obtained from either the FHA office or the VA office and forwarded to us before disbursement can be made. Frequently, when the papers arrive, we find that the waiver has not been even requested by the correspondent. That could mean a delay of a couple of weeks.

While some offices are meticulous in the preparation of the papers before they are shipped, others could benefit from the practice, followed by a number of correspondents, of having the applications — and, subsequently, the papers — proof-read by one particular individual who, though not necessarily familiar with the case, does thoroughly check all outgoing papers.

If the errors and omissions can be completely eliminated, it would not only benefit the lender, but it would be extremely beneficial to the correspondent—by reducing the costs incidental to the processing of these loans —and by aiding their public relations.

Service Begins With Originator

Another life company official has the same general complaint: that correspondents treat the application too lightly. Too often the investor must make a decision without the benefit of what the correspondent knows—but has neglected to tell.

SERVICE, says the correspondent, is what is needed in mortgage investment originations, particularly in the conventional mortgage field. Service is the one word the correspondent has poured into the ears of the investor. The investor wants to give service but to do so the correspondent must do his part to effectively comply. Sometimes it is rather difficult to valuate the correspondent's efforts to make service feasible judging from the manner in which submissions are presented.

Apparently everybody is so busy today that no one has time to devote to the proper preparation of the factual data and the necessary details involved to correctly present a loan submission. Since the correspondent is the originator, then the first and most important step to better service rests with the correspondent. Consequently, the originator must of necessity devote sufficient time to:

A. Fully acquaint its personnel with the requirements of the investor, primarily as to: Location, types of property, credit, loan terms, percentage of loan to value and appraisal.

B. Use of submission forms basic: Application and appraisal.

C. Supporting papers basic: Identifying photographs of security and street scene, credit report and plans and specifications of proposed construction with copy of contract to build or contractor's breakdown of cost.

The foregoing seems to be rather academic. As a matter of fact, it is. So much so it has become perfunctory. Yet it is the most valuable service the correspondent renders the investor because the data presented is the basis of the analysis made by the correspondent that the investment meets all of the requirements of the investor and, further, the correspondent's recommendation is based on the value of the real estate as described in the appraisal report and credit qualification of the applicant.

Therefore, the preparation of submission papers should not be treated lightly or as a menial or mechanical task as at this point, almost without exception, is determined the future quality of a mortgage portfolio and the probabilities of servicing problems. Since the responsibility of the origination belongs to the correspondent, the degree of its acceptance is reflected in the manner in which presentations are made. It is a natural sequence that an investor's confidence will be greater in the correspondent whose submissions manifest acceptance of the responsibility of the correspondent. It is not at all necessary to supplement a loan submission with a lot of "verbiage" in an accompanying letter, which merely reiterates what is already in the application, appraisal report and supporting papers. Usually the investor's forms give all the information that is needed when properly prepared and when this is done, it not only saves the correspondent time but speeds up the operation of loan approval.

It must be recognized that the investor is not infallible and there will be differences of opinion. In most instances, differences in opinion occur because the investor has had to make a determination based on what was presented without benefit of what the correspondent knows. There are times the information normally contained in the submission papers should be supplemented to impart full knowledge of the facts known to the correspondent so that the investor will have the same advantage as the correspondent in making an analysis.

CORRESPONDENTS AND INVESTORS FORUM

Voice of the Home Office and Voice of the Correspondent are monthly open forums for discussing investor and correspondent problems. If, out of these discussions, comes a better understanding and a more efficient working relationship between the two, then something good has been accomplished. You're invited to air your own viewpoint. You can be as frank as you wish. Unsigned contributions are welcome and invited.

Voice of the Correspondent

Do Inspections Accomplish Anything?

Not in the opinion of this correspondent, who says that the investor is wasting his time and money by requiring annual or every other year inspections. They never actually accomplish their purpose so investors would be wise to cut them out.

MANY investors require their correspondents to inspect once a year all the properties securing loans that they have in their portfolio. Other investors require these inspections every two years. In either case, this requirement is a time-consuming and costly procedure that causes both the correspondent and the investor unnecessary expense — and accomplishes nothing.

The object of these inspections is to discover any property not being properly maintained. Such cases are rare, but let us illustrate the good these examinations do by a single example:

An inspector reports that the exterior of a certain house needs a coat of paint. The owner is contacted, and he immediately replies, "I agree that it needs paint. The work is on my program for Spring." A report to this effect is sent to the investor.

Spring comes and there is a follow-up letter from the investor inquiring if the work has been done. The correspondent makes another inspection and finds that the work has not been done. The owner is again contacted, and he says that his mother-in-law was sick during the Winter, that her sickness cost him a great deal of money and that he will have to defer any more expense until Fall. Reports to the investor on these inspections and interviews are followed by inquiries by the investor about the condition of the paint and floors inside the house. The correspondence grows in volume.

In the Fall another inspection is made; and, since the work is not yet done, a further round of correspondence ensues. Then the heat is really put on the owner. By this time, very likely, he is tired of all this pressure and he says, "When I get the extra cash for this work I will do it. I do not know when this will be; please let me alone." This attitude is reported to the investor. What is his course of action? Does he start foreclosure? He does not; he simply keeps writing letters.

I do not know of any case where foreclosure has been started for lack of maintenance. If one was started and it was taken to court, what would the court do about it? It is my guess the court would not permit a foreclosure.

During all the time that discussion about maintenance has been going on, the mortgagor has made his regular monthly payments of interest, principal and taxes. There are no problems in the case except maintenance.

Experience has shown that, eventually, the owner paints his house. A borrower who meets his monthly payments will maintain a house eventually. All our pressure has done is to cause extra work and unnecessary costs.

I do not believe in extra-servicing work that cannot be enforced. An owner who refuses to paint, when our inspectors think he should, can keep us going indefinitely. And before he does decide to do the work himself, no results are obtained.

In 99 cases out of 100, he will do the work when he gets to it—and he will do it without our pressure.

In addition, if we take a practical point of view, we will recognize that the amortization payments are probably reducing the unpaid principal more than enough to cover the cost of the maintenance—should trouble occur.

A loan that is delinquent in its monthly payment is a different type of case. A delinquent, who is not keeping up his property, should be foreclosed and the case wiped out. Inspections of property securing delinquent mortgages should be made when delinquency occurs.

A realistic examination of the annual inspection requirement should convince a hard-headed investor that he is wasting both time and money, as well as putting his correspondent to unnecessary expense. The custom should be discontinued.

Investors Strong for "Minor Details"

Here are a number that are expensive, time-consuming and serve no useful purpose. On income loans, investors want an application in complete detail. Why not submit a preliminary application first to see whether the investor is interested?

THERE is, of course, an ever-present correspondent complaint regarding the time element involved in processing mortgage applications by the out-of-state principal. This can be especially embarrassing for the correspondent whose main competition is from local direct lenders, viz., savings banks and insurance companies. The investor who operates at a distance is at a disadvantage, naturally, since he cannot personally see a given property before making the loan. Frequently, in his review of the loan submission on paper, it would appear that he is more carried away by objection to relatively minor details, than by the fact that he has a basically sound loan presented to him. By the time the exchange of correspondence, necessary to resolve the difficulties, is completed, competitors have moved in and made the loan. This may be due, in part, to the fact that the particular review echelon within the investor organization feels it must adhere religiously to specific formula. I think it behooves any investor to see that his various individual processors, architectural reviewers and members of his legal department maintain a proper sense of proportion in regard to analytical processes. Also, if the investor has experienced and dependable correspondents, he should give proper weight to their judgment and advice regarding the discounting of minor items.

Some investors, in loan submissions, require the drawing of floor plans on existing houses. This is an additional burden which I believe a reliable correspondent should be spared—especially if the practice of his principal requires an additional independent appraisal, or if the principal himself, at a later date, makes a personal examination of the property involved.

Individually-signed financial statements, in addition to the signed statement on the FHA or VA applications, are required by some investors. This is merely added labor for the correspondent and an annoyance to the borrower. With the furnishing of affidavits of employment, etc., it would seem that the FHA and VA applications should suffice.

Relative to income loan submissions, some investors require the submission to be prepared in minute detail before giving it consideration. The correspondent, though willing to do this, should be able to present to his principal a preliminary submission containing all basic data. Thus, before entering needlessly upon the whole arduous procedure, he can ascertain if there is any real interest or if his principal is definitely going to decline the submission because of type or amount. The investor should have some set-up wherein such preliminary data may be intelligently reviewed. The correspondent would then know whether to continue negotiations with the borrower, and submit complete application, or else to forget the whole thing.

Referring again to income loans: sometime ago when interest rates stiffened considerably, many investors rewrote their fee and service schedules based on these higher rates. The rates have now come down again—at least in part—but the investor is still keeping his fee schedule geared to the higher rates. The work currently involved in presenting an income type loan of modest denomination barely pays off from the correspondent viewpoint.

Multiple Inspections Should Stop

Several inspections of the same security do not make sense, any more than other situations this correspondent doesn't like.

If life insurance companies were to handle their underwriting and processing of loans as intelligently and efficiently as they do servicing, the relationship with correspondents, including the problem of acquisition costs, would be much more satisfactory.

The fear among field offices personnel of being second-guessed and criticized by the home office should be eliminated.

New policies and thoughts relating to various types of loans should be communicated promptly to correspondents—not delayed until a specific loan processing problem occurs. This would save time and trouble.

Home office and regional office people should avoid being "mysterious" in their methods of operation. There should be no *good* reason why one correspondent should not know what another is doing. It would be helpful to all concerned.

Those who check and approve loans should be more cooperative in aiding with questions and other details. It is obvious that the correspondent, when presented with a choice, will give the "cream business" to those who are helpful in a non-arbitrary way.

Field office personnel who check and approve loans, should realize that they cannot sit in their office, 400 miles away, and intelligently second-guess a correspondent—anymore than the home office figurehead can sit in his office, 1,200 miles away, and second-guess the regional office.

The practice of having three or four inspections of the same security made by various home and regional office people must be stopped. This is an expense and an imposition on the correspondent.

Conditions Affecting Farm Loans Present Favorable Outlook

1954 was a year of mixed trends and 1955 prospects appear encouraging, according to the current report of the agricultural research service

PRICES of farm land strengthened in the central Corn Belt during the four months ended November 1, 1954 but in most other states they drifted moderately lower. The national index of average value per acre advanced to 124 (1947-49=100), 1 per cent above last July and 2 per cent above November, 1953. The small gains in the national level from March to November 1954 offset part of the decline that followed the post-Korean peak in July 1952; the November 1954 level was only four per cent below that peak. However, the amount of change has varied considerably in different areas. New all-time peaks were reached in six states last November, and in 16 other states values were within 5 per cent of their previous highs. Most of these states were in the central Corn Belt or along the eastern seaboard from New Jersey to Florida. Largest declines have been in the Mountain and Pacific Coast regions where the November level averaged 15 per cent lower than the previous peak.

Number of voluntary transfers of farm real estate during 1954 was probably near that of 1953, which was the lowest since the mid-thirties.

Slight increases, compared with a year earlier, may have occurred in Iowa, Minnesota, and several other Corn Belt States where land values have strengthened most. Elsewhere the rate of transfer was at or near that of the previous year. The number of farms for sale has remained at a low level in recent years, but a slight increase was reported in areas where land values have declined more than average. Demand for farm land strengthened somewhat in the Midwest, but elsewhere it continued weak, especially in states affected by drought.

Generally favorable weather in the 1954 crop-year in most of the northern Corn Belt, slightly higher prices than a year earlier for several important crops, and good returns from hogs helped to sustain farm income at or near record levels. These factors were also responsible for renewed interest in the purchase of farm real estate and for a slight rise in prices paid. Although the market was not active by previous standards, better grades of farms found ready buyers at prices that were at or near the previous peak levels reached in mid-1952. In the spring and early summer of 1954, several insurance companies active in the Midwest adopted more liberal credit policies and lowered interest rates. This may have given an additional impetus to the market.

Elsewhere, drought, lower farm income, and inability of many prospective buyers to meet lenders requirements resulted in a dull and inactive land market at slightly lower prices. These features characterized the market in many Southeastern and South Central states, where declines of 1 or

2 per cent were common between July and November. Although these declines were small, they were a continuation of the downward trend that was evident in these areas during the first half of 1954. As a result, the November level of values in most of these states was from five to 10 per cent below the post-Korean peak, whereas values in most of the North Central States were within 5 per cent of that level.

Lower interest rates and an increase in the amount of farm mortgage credit available to finance farm purchases in the Corn Belt, and to a lesser extent elsewhere, contributed to the strength in land values noted in the last half of 1954. Several insurance companies have reduced their interest rates by one-half of one per cent, in recognition of recent trends in central money markets. They have also increased their appraisals or upper loan limits to strengthen their competitive position. These relaxations in credit terms have been selective, however, with respect to both grade of property and to area, and have not as yet become evident throughout the country. In the October survey, reporters in other areas frequently referred to the inability of many prospective buyers with limited resources to obtain sufficient credit on terms adapted to the borrower's requirements.

The increase in the amount of loan obtainable on better grades of farms is relatively small in relation to the total down payment required. But the increased competition among lenders and the lower interest rates may have encouraged some prospective buyers, who had previously hesitated to assume debt obligations, to participate in the land and credit market. A decline of one-half of one per cent in the interest rate represents a substantial saving in interest payments over the life of the sizable mortgage that is typical in the Corn Belt. On a $50,000, 20-year amortized mortgage, for example, the total interest payment at 4 per cent is $3,300 less than for a similar mortgage at 4½ per cent. A reduction from 5 to 4½ per cent results in a saving of $3,360.

The dollar volume of new mortgages secured by farm real estate and recorded in the third quarter of 1954 totaled 5 per cent more than for the same period a year earlier. Largest increases occurred in the lending activities of commercial banks and insurance companies, up 7 and 6 per cent, respectively. Although the number of loans made by Federal Land Banks was 5 per cent greater than a year earlier, the dollar volume of their loans was only 1 per cent more. Total mortgage recordings for the first nine months of 1954 were approximately the same as for the comparable period of 1953 with respect to both number and dollar volume of loans.

The proportion of the total dollar volume of loans made by the various lenders has not changed much in recent quarters. Individuals and commercial banks each had about an equal share of the total. Together, they accounted for slightly more than half of all credit extended. Loans made by insurance companies represented about 20 per cent and the Federal Land Banks have made about 15 per cent, of the total.

NEIGHBORHOOD

DYNAMICS

Some lenders exhibit some rather out of date thinking in the importance they give to neighborhoods in their loaning policies.

By **KENNETH E. SARLES**

SOME of the attitudes about neighborhoods still evident in the policy decisions of mortgage lenders are as old — and obsolete — as the Simon Legree caricature of the lender himself. But they are not evident in the practices of the lender who has kept in touch with trends through appraisal contacts. For instance, he knows that new neighborhoods are not necessarily the most stable security for mortgage funds. He recognizes the advantages of properly controlled business and even industrial zoning within a suburban residential community — because such properties can readily lighten the tax load for the home owners who share the municipal facilities with their profit-making neighbors.

Kenneth E. Sarles

The neighborhood is not an economic factor in judging property values in small communities. In hundreds of villages, the banker lives next door to a skilled or unskilled worker. Every street in the area exhibits a similar variety of improvements. Business places are in scale with the size of the community. Therefore, they do not bring about the commonly recognized nuisances of congestion, excessive lighting or noise.

Particularly in the older communities in the East, a family home was handed down from generation to generation. There was room enough in it to accommodate more than one set of parents and children. The younger folks often went into the family business in the same locality —or at least settled in the same town. There was no effort to keep up with the Joneses under those conditions.

The significance of the neighborhood begins when there is a noticeable difference between the characteristics of two or more areas in the same community. The predominant factor in defining a neighborhood is the common use of certain facilities, such as churches and schools and shopping areas. Ordinarily there are at least two further segregations —by the age and type of buildings

as well as the income bracket of the occupants. It is because the typical buyer will be influenced by the differences in these neighborhoods that the appraiser and mortgage lender must be concerned with them. Such differences are not always apparent in the price of the property. One neighborhood of $20,000 homes may be far more desirable and stable from a long-term standpoint than another.

A classical theory in real estate studies is that neighborhoods progress in cycles. The newly developed area is considered the most desirable in this pattern. It is assumed that the families buying in such neighborhoods intend to remain there until their children complete their high school educations, at least. After the 15 or 20 year period when the children are growing up, it is expected that the parents would find the house too large, or their interests different, so they would move out. By the filtering-down system, a family of lesser means would then acquire the property and begin a new cycle of family living governed by growing children and their education. The same changes would be occurring almost simultaneously throughout the entire neighborhood, reducing its desirability gradually and lowering the value of the property.

Even when the aging cycle occurs within an inflationary period, the relative value of the older properties compared to new ones in other neighborhoods is expected to reflect a lesser scale of amenities.

But even the cycle theory recognizes that some older neighborhoods are not taken over by a different type of family. Outstanding churches, especially attractive home sites that take on an exclusive character and could not be duplicated elsewhere in the community, strong community spirit, unusual convenience of transportation, and even an especially strong and responsible community government, each might offset the expected decline.

The study of neighborhoods during the past 10 years shows definitely that many other factors overshadow the age of the improvements and therefore invalidate the classical cycle theory of neighborhood trends.

For instance, the age of the typical home-buying family is substantially lower. Usually, they purchase their new home close to the time of the arrival of their first child. This means that new neighborhoods will require school facilities much sooner than formerly. A great majority of families having several children of nearly the same age causes a wave of congestion in the schools which will gradually subside if these same families remain in the neighborhood. Fluctuating needs for school plant and staff can create new problems in over-adequacy, at a later date, entailing excessive expense to the taxpayer. Insufficient facilities, on the other hand, require expenditures for bus transportation and tuition to nearby schools.

A growing number of communities is attempting to solve the dilemma by refusing permits for new construction. The court has held, in at least one recent case, however, that the builder who complies with all the statutes must be given permission to proceed, although substantial costs may be incurred through delays and various restrictions that can be legally invoked.

Costs of administering police and fire protection, schools and all community services have risen with the general price trends, bringing a heavier tax load to older neighborhoods as well as the new ones.

The cost of utilities and services has become the most acute neighborhood problem in new areas. Individual sewage disposal systems, for instance (which have been used successfully in many areas where soil conditions were adequate) have proved costly where proper engineering advice was lacking. The financing of central utility systems has outdistanced the capacity of many smaller communities. The device of including such costs in the original subdivision expenses to the builder or developer is bringing lot prices to higher and higher proportions of the total cost of a home—perhaps approaching a prohibitive level for medium and low-priced homes.

There is a definite trend toward consolidation of smaller communities for economy in operating the necessary services. In Wisconsin, the smaller towns are being annexed by the larger ones. The number of such annexations has increased in recent years indicating that the financial pressure is becoming more and more acute as the tremendous home building volume rolls along.

While not so widely practiced, another method of securing more economical administration of public utilities is that utilized in Toronto

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where special authorities have been formed for the supplying of the services, without changing the political status of the participating communities.

What is the importance of the mounting cost of municipal services to the mortgage lender? First of all, it means that he should recognize the competitive advantages that the buyers will see in neighborhoods where the services are now available, at a moderate cost compared with the installation of new facilities. Secondly, mortgages made in areas having only temporary or make-shift services will bear the extra risk of higher costs and lessened desirability to the borrower.

Taxes required to support adequate utilities and schools may prove to be one of the strongest impediments to wider suburbanization. The corollary suggested, of course, is that older neighborhoods in the centers of our cities, as well as older outlying areas, offer an economic advantage because of available services.

Abandoned school buildings in the heart of the city could be utilized with a change in the character of the surrounding neighborhood.

It would require a complete change in the character of most central neighborhoods, however, to make them acceptable to families with children. A more practical solution would be to utilize central areas for older couples and business people for whom the convenience of transportation would command a premium. Even with industry surrounding them, and narrow lots, sufficient privacy and insulation could be achieved with air-conditioning and modern equipment so that the surroundings would not be a serious detriment.

The high cost of assembly and razing of individually-owned structures makes it doubtful that such areas could be re-used for new construction of conventional types, but remodeling could make many of the present structures functionally acceptable. The widely discussed slum clearance and rehabilitation campaigns sponsored by strong organizations are likely to gain considerable impetus from the pressure to reduce the original land cost and operating costs to home owners.

Another constructive solution to the burden of taxes paid by the home owner is the provision for commercial and industrial uses of some parts of the residential community. The businesses pay a higher proportionate share of the tax load, thereby relieving the home owner. Unfortunately, there is a strong prejudice in the minds of many laymen about the detrimental effect of nearby business. The notion that commercial enterprises unalterably reduce the value of residential property is a deep-seated one. It is partly based on the noise, odor and unsightliness of heavy manufacturing plants or poorly planned smaller industries that grew up with a community in the past. None of these factors are present, however, in the well-planned industrial and commercial developments of today.

For instance, in a case for which the author has served as an appraiser, a buffer zone of 1000′ of multiple-family apartments has been set up to shield the single-family zone from a light manufacturing area. With good smoke control and elimination of odor and noise, the only ill effect of such industry would be the traffic congestion which can also be overcome with proper planning. Modern factories are acutely aware of the community public relations, and they usually supply off-street parking for employees as well as customers and tradespeople, and landscape their grounds so that they are an aesthetic advantage. In the case mentioned, no chimney is to be more than 20′ high; there will be no soot or dirt introduced into the air by the industries which will probably be primarily packaging or warehousing facilities. Still the prejudice of the common misconception of the detrimental effect of industry has aroused community opposition. Paradoxically, the opposition does not center around the apartment development, which will not require off-street parking and will therefore congest the streets, but rather against the industry which will create little if any disadvantage. While this general clamor arises from the area of inexpensive homes, two custom-built homes in the $35,000 range are going up on lots adjacent to the proposed light manufacturing area and across the street from a heavy manufacturing plant. Obviously these owners recognize the net advantages of the location, after having weighed its disadvantages.

Rating along with the cost of municipal facilities as a changing factor in neighborhoods is the mobility of today's family. No longer is the purchase of a home deferred until the prospects seem likely for a lifetime location in that particular neighbor-

hood or city. Wartime employment and military service as well as the many transfers made by nationwide corporations have necessitated changing locations for a far higher proportion of the population than ever before. At the same time, availability of modern installment financing has made it possible to sell homes more readily so that many families purchase a home in their new locality before selling the one they have left —sometimes occupied by a tenant.

It is true that this buoyant market has not been tested by a severe unemployment period, but the general public recognizes that the same benign government that created the HOLC will not permit a wide-scale catastrophe to home owners of sincere purpose.

The same ease of financing has removed some of the responsibility that was formerly attached to the equity investment by the borrower. The typical buyer whose investment is less than the rental of an equivalent apartment does not exhibit the discrimination upon which the appraiser and the mortgage lender had depended as a criterion of long-term desirability of a property. If he feels that he is substituting mortgage payments for rent, he will not shop so astutely as the buyer who plunks down a 30 per cent equity. It is conceivable, therefore, that a whole 50 or 100-home development can be overpriced in relation to other available accommodations which the buyers have not investigated. This does not infer excessive builder's profit, the excess may be attributable to some unavoidable costs inherent in the location. Ten years later, or upon earlier resale, the disparity becomes evident. It is the appraiser's and the mortgage lender's job to know the comparable facilities to avoid jeopardizing long-term investments.

Monotony is another scourge of modern neighborhoods. It is largely a product of economy in mass production. When its aesthetic offensiveness is recognized, efforts can be made through superficial changes of trim and color to relieve the sameness. Unfortunately, the cure is usually worse than the ailment—achieving a variegated monotony that is inharmonious in addition to being essentially repetitive. Public avergence is growing so strong that a severe penalty must be placed upon developments of houses as much alike as the proverbial peas in a pod.

There is a serious disadvantage, too, in building homes of exactly the same number of rooms up and down the streets of a single subdivision. The dozens of examples of such subdivisions of two-bedroom homes, designed so that they cannot be expanded, have created substantial obsolescence and high turnover in new neighborhoods.

The lessons learned in pioneering housing experiments of socialistic type in England, where hundreds of families of very closely similar characteristics were moved into adjoining units have been brought home to us on a smaller scale in those communities where too much sameness in occupants as well as houses has aggravated social problems.

Still we know that new neighborhoods can incorporate the most desirable of the innovations that are constantly being developed by enterprising builders to meet competition. As is stated in the *Appraisal Guide's* chapter on neighborhood analysis: "New neighborhoods are usually the more stable if the character of further construction is adequately controlled so that it will conform with the existing development. On the other hand, 'newness' itself without adequate safeguards for the future cannot be considered as an assurance of neighborhood stability."

Our departures from the heterogenous neighborhood of the small town need not have been so radical as we have made them in trying to insulate neighborhoods in order to preserve values. Possibly one reason is that education has been a leveling factor.

The past 10 years have been a period of economic innovations whose consequences we cannot yet judge. We must be careful not to project our opinions on the basis of rules of thumb that have proved unsound. A careful and periodic analysis of changes around us is essential. Appraisal studies stress such continuing questions about new and old rules of value.

Report to the Members

HOW BRIGHT IS THE MORTGAGE OUTLOOK?

From almost every published statement this new year, one could conclude that there will be more homes started, more mortgage money available, and more construction of all types in 1955 than in 1954. The implication in most statements is that mortgage money will be at a high ratio of loan to value, with long terms, and at low rates of interest. The final record this year may or may not prove all these optimistic viewpoints to have been accurate. Each mortgage man, having important plans to make, should appraise conditions for himself and rather carefully, too. Perhaps the most important subject to consider is the supply of mortgage money.

FACTORS FAVORING AN EVER-INCREASING AMOUNT OF MORTGAGE MONEY

1. Mortgages are self-liquidating at a faster rate than most investors realize, and pay-offs will be high.
2. New money paid into savings institutions is still running at a heavy rate.
3. Many institutions will increase the percentage of mortgages to assets as the merit of mortgages becomes more widely realized and the better yield is desired.

FACTORS UNFAVORABLE TO AN EVER-INCREASING AMOUNT OF MORTGAGE MONEY

1. Some savings institutions (life insurance companies are included in this category) have commitments made farther into the future than ever before.
2. Most savings institutions have fewer securities to sell for reinvestment in mortgages this year than last; also, the price is less favorable to a switch.
3. Many mortgage investors have already increased their percentage of mortgages to assets as high as they wish to go.
4. We have presumably reached the end of the road of loan-to-value ratio, at least with respect to insured loans. This is a most important point. From 50 per cent or 60 per cent in 1925 to 100 per cent in 1955 has been a long and prodigious inflationary excursion. If 100 per cent is as far as we go percentage-wise, the thirty-year trip is over.

CONCLUSION

Mortgage money could be a little less plentiful this year than last, and hence rates could be slightly higher. But regardless of how you balance the factors out, it is certain, barring national emergencies, that the mortgage and construction outlook is bright. Nevertheless, steady mortgage men should exercise a realistic degree of caution with respect to their operations and future plans.

Wallace Moir

WALLACE MOIR, *President*

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GOVERNORS, REGIONAL VICE PRESIDENTS, ASSOCIATE GOVERNORS AND PAST PRESIDENTS SHOWN PAGE 1

Accomplishments and Opportunities in MBA's Educational Program

By **FRANK J. McCABE, JR.**
MBA Assistant Secretary and Treasurer

IF CALLED upon to characterize in one simple phrase, the operation of our American economy during the past decade, the term would be "tremendous growth." Never in history has a nation during peacetime not only utilized but expanded so tremendously its already gigantic production capacity built up during the period of a major war. And it did this without a serious recession. This accomplishment stands as a tribute to the ingenuity of our leaders, and to the spirit and initiative engendered in our citizens through the typically-American private enterprise system.


Frank J. McCabe, Jr.

What is true of our over-all economy is true also of those segments pertaining to mortgage lending. The statistics are impressive for emphasizing our accomplishments in residential construction. During the entire post-war period, 1945 through 1954, approximately $87 billion in new, non-farm residential construction was put in place. In terms of housing, this represents 9,000,000 units added since 1945. Home ownership, as opposed to renting, has been on the rise over the decades. In 1890, 37 per cent of non-farm residences were owner-occupied; by 1940, it had risen to 41 per cent; today it is almost 60 per cent. As stated by W. Walter Williams, Undersecretary of Commerce and past president of MBA, "This trend is in the best American tradition and is a manifestation of improvement in living standards which may be derived from a growing economy."

Mortgage lending, of course, has been an influential factor in our ever-expanding economy. The role of the mortgage banker in private enterprise is reflected by the growth of outstanding mortgages from almost $30 billion in 1945 to approximately $110 billion by the end of 1954.

The mortgage banking firm operating in the early 40's was an organization developed during a period when, in the main, mortgage loans were short term—generally made and regularly renewed after five year intervals—and seasoned by the depression-foreclosure period of the early 30's. With the inauguration of FHA bringing with it the advent of the amortized government insured loan, the nature of the business changed. The market became national and institutionalized. Mortgage bankers had to be geared to servicing loans for a long period of time. There were neither adequately trained personnel nor a planned educational program which could be used as a training field, so all learning was of the on-the-job type.

This, then, was the situation as it existed at the close of World War II. The great housing shortage, the availability of the GI loan, and the exodus of personnel from the armed forces mushroomed the demand for mortgage financing. Mortgage banking firms then operating were forced to add personnel with little thought given to their background or training.

MBA, in its constant quest to meet the problems of the mortgage banking industry, recognized the lack of educational facilities and developed a committee to study the problem. Because the need for trained personnel was great and because little time was available to apprise the colleges and universities of the opportunities in our business or of the very real need for training facilities at the college level, it was realized

One of the challenges confronting just about eve ryone in the business of mortgage lending today is retaining and improving their most valuable asset—good personnel. MBA's educational program has done more to lift the industry to a higher professional level than any other thing, and it is growing and expanding every year. Here Mr. McCabe reviews—as he did recently before members of Detroit MBA—past accomplishments and looks ahead to even greater achievements.

that our initial effort would have to be directed to the training of personnel already associated with mortgage banking firms. Out of the deliberations of MBA's Educational Committee came the first Mortgage Banking Seminar at Northwestern University in 1948. It was a program which met the needs of the time; it provided a one-week lecture course to familiarize newcomers with some of the principles and procedures followed in the making, selling and servicing of mortgages. All phases of the business were covered, including the financing of residential, apartment and commercial properties. Efforts were made to improve the Seminar each year, including its extension to a two-week period through the addition of the Advanced Seminar, and later by awarding a certificate to students attending both Seminars and preparing an acceptable thesis on a subject related to mortgage banking.

During the period 1948-53, some 900 students attended the Mortgage Banking Seminars—with profit to themselves and to their firms. MBA members became gradually aware of the value of education to those young men desirous and capable of assuming assignments of greater responsibility.

All who had been associated with the development of the Seminars were highly pleased with their success. However, in 1953, it became apparent that it would be necessary to extend our educational program if we were to assure adequate training for your personnel. And from this realization grew the MBA School of Mortgage Banking as it exists today.

William A. Clarke hinted at these future needs in a speech he made shortly before becoming MBA president. He looked ahead and quoted statistics to indicate the anticipated growth in mortgage banking operations by 1960. These figures were based on certain studies conducted by several of the larger insurance companies.

At the end of 1950, assets of all legal life insurance companies totalled $64 billion. Of this, $16.1 billion, or 25.1 per cent of total assets, were invested in mortgages. By December 31, 1953, the assets of these companies had increased to $78.6 billion of which $23.3 billion were invested in mortgages. This represented 29.6 per cent of total assets. Based upon this past rate of growth, it is estimated that by December 31, 1960, the assets of these companies will reach $113.6 billion with $39.6 billion, or 35 per cent, invested in mortgages. On December 31 of last year these companies held in their portfolios about $30 billion in mortgage loans. Assuming a 10 per cent roll-off, new business of $3 billion will be required annually to maintain this volume. To develop the increase, an additional $2.43 billion will be required, making a total of $5.43 billion annually. Latest figures show that acquisitions during 1954 totalled approximately $4.5 billion.

When one reads the estimates of the expected population increase by 1960, and considers the fact that a large proportion of this increase will consist of persons who were among the record number of war babies born during and after World War II and who will then be housing their own families, he gets some idea of the demands to be placed on mortgage bankers in the decade beginning 1960. The challenge in that statement is that mortgage bankers will need to have experienced and trained personnel to meet the demands they will encounter. With Mr. Clarke's constructive encouragement, the Educational Committee under the able leadership of Walter C. Nelson set about the task of improving and expanding the MBA educational program to assist our industry in providing better training facilities for the personnel of our member firms. This study led to the establishment of the School of Mortgage Banking, instituted last year at Northwestern University.

As to the objectives we hope to achieve with our School of Mortgage Banking:

» First, to raise the standards of mortgage personnel to a higher professional level

» Second, to intensify the scope of individual subject coverage

» Third, to lengthen the time so as to provide periods for the student to mature in the field between course sessions

» Fourth, to promote closer and longer faculty-student association, and

» Fifth, to provide greater diversification of subjects.

MBA has taken several steps to achieve its first objective: that of raising standards to professional level.

MBA's educational courses have made an important contribution to the high professional status of mortgage lending today. Lecturers have been recognized authorities in their fields. The atmosphere for learning has been informal, conducive for absorbing much in a brief period of time.

Lewis O. Kerwood has been added to the staff of the Headquarters Office to supervise the development of our educational program. He has had a long and successful career in the field of professional education, having served as assistant to the Dean of Commerce at the University of Illinois. His counsel will be of great value in raising the professional standards of our program. Also, closer association with the School of Commerce at Northwestern University is being established.

Dr. Homer V. Cherrington and Dr. Harold W. Torgerson, Professors of Finance at Northwestern, serve as consultants to our Educational Committee and participate closely in the development and administration of the program. Examinations are included as a measure of accomplishment for the students. A certificate bearing the signature of the Dean of the School of Commerce of Northwestern University is awarded each student who successfully completes the prescribed course of study. Textbooks, including several prepared especially under the guidance of the Educational Committee, are a fundamental part of the School program.

Our second objective, to intensify the scope of individual subject coverage, depends for its achievement upon the effective use of sufficient time, plus top-flight faculty guidance for exploration within the realm of each subject area presented. We have sufficient time and are certain this will be achieved at a satisfactory level.

In 1955, Courses I and II of the School of Mortgage Banking at Northwestern University.

The development of a three-year course of study, will, we hope, accomplish our third objective—that of lengthening the time to provide periods in which students might mature. The program includes: Course I, a one-week session of formal classroom work limited to the study of residential property financing; Course II, a one-week session devoted to income properties; and Course III, a one-week session on basic finance. These sessions are held on the downtown Chicago campus of Northwestern University. Students will not be permitted to attend all courses in one year, but must follow the prescribed program sequence. At the end of Course I, a final examination is given; successful students qualify for a formalized 11-month home study program, developed and administered by Dr. Cherrington and Dr. Torgerson. Prescribed assignments are mailed to the students at regularly scheduled intervals. Completed lessons, in turn, are submitted for grading and correction by these educators. Students completing the home study program then become eligible for enrollment in Course II. This one-week session is concluded by a final examination, covering both the home study program and the classroom lectures.

Students successful in this phase then complete a second 11-month home study program, after which they may enroll in Course III. The curriculum for this course includes study of principles and policies of general investment, economics, operation of the federal reserve system, statistics and factors which influence the ebb and flow of the mortgage market. A final written examination, covering the second home study program and Course III, determines those students to whom certificates are awarded.

Our fourth objective, closer and longer faculty-student association, can be achieved by encouraging those who lecture at the classroom sessions to spend more over-all time at the School. These faculty members are all experts in their fields. They are selected on the basis of technical knowledge, ability of presentation and previous contributions to the field of mortgage banking.

We are particularly proud of the high caliber of our lecturers. Several have lectured in our educational program for many years and do a most effective job. I should like to recognize in particular those with the longest tenure: Walter C. Nelson, president, Eberhardt Company, Minneapolis; Robert H. Pease, president, Detroit Mortgage and Realty Company, Detroit; Carey Winston, president, The Carey Winston Company, Washington, D. C.; Lon Worth Crow, Jr., executive vice president, Lon Worth Crow Company, Miami; Ad-

dison C. Pond, supervisor of mortgages and real estate, National Life Insurance Company, Montpelier, Vermont; R. Manning Brown, Jr., vice president, New York Life Insurance Company, New York; Harry Held, vice president, The Bowery Savings Bank, New York; and William A. Clarke, president, W. A. Clarke Mortgage Company, Philadelphia.

The contact these men have with the students, even during informal discussions, is extremely important for the student. It provides an excellent atmosphere for the interchange of ideas, plus a chance to develop friendships which will pay rich dividends for many years.

Our fifth objective, greater diversification of subject coverage, is made possible by the expansion of our course time. For example, we can now devote a full week of classroom study to a wide selection of subjects directly related to the financing of dwellings. Within this specific field, more time is now available for consideration of each of such areas as—the production of mortgage loans on existing homes and new construction, land planning and project development, interim financing and warehousing, to mention but a few. The same can be said for Courses II and III. Likewise, time is now available for the inclusion of such academic subjects as money and banking, financial institutions, economics and statistics—none of which could be covered at the Seminars.

We have seen how mortgage banking firms, in the immediate postwar period, had little opportunity to train personnel. This must not happen again; we must not be caught short in the anticipated boom of the 1960's. The MBA program of the School of Mortgage Banking can be the answer—it is the answer! Your Educational Committee is ready and willing to keep pace with the requirements of the time.

Our MBA course curriculum has been directed to the needs of our younger members, men with two to five years' experience in the mortgage business. I do not mean to imply that students, to be accepted, must fall within this experience rating. Several top executives of mortgage companies and of commercial banks attended Course I at Northwestern University last year and are continuing in our study program with great benefit to themselves. A few of these include George W. Lubke, Jr., president, George W. Lubke, Inc., Daytona Beach, Florida; C. A. Williamson, executive vice president, The Builders Mortgage Corp., St. Petersburg, Florida; Francis S. Key, vice president, Etheridge & Vanneman, Inc., Atlanta; Bradford M. Kingman, vice president, Worcester County Institution for Savings, Worcester, Mass.; M. A. Schneider, president, The Home Loan & Securities Corp., Cleveland; Walter Coupe, vice president, Industrial National Bank of Providence, Providence, R. I.; J. H. White, Jr., senior vice president, Old Dominion Bank, Arlington, Virginia; and Carl A. Sandquist, vice president, Coast Mortgage & Investment Company, Seattle.

Course I covers all phases of dwellings, financing, including loan production, credit requirements, appraisal analysis, land planning, study of blueprints and specifications, builders contacts and construction loans, interim financing and warehousing, developing and examining submittals, servicing, government guaranteed and insured loans and numerous other factors affecting the mortgage market. The subject matter for Courses II and III is equally as comprehensive.

In 1955, Course I of the School of Mortgage Banking at Stanford University.

When speaking of the "School," I have consistently referred to Northwestern University, for there our School was inaugurated in 1954. In 1955, Courses I and II again will be conducted at Northwestern University; in addition, Course I will be presented for our Western members at the Graduate School of Business, Stanford University, Stanford, Calif.

MBA is proud that both Northwestern and Stanford Universities have offered us the prestige of their acknowledged leadership in adult education, as well as several distinguished members of their faculties to

serve as consultants and lecturers on our programs. We feel that their participation raises the professional standing of our entire industry.

In presenting the subjects throughout our entire three-year program, principles — not procedures — will be stressed. It is the opinion of our Educational Committee that this should be the function of the School. Practices can be learned through daily application in individual offices. Too, practices vary from office to office, whereas principles are basic to the industry as a whole.

The young men in your organization, particularly those who have indicated executive ability, will benefit greatly from participation in an educational effort such as this one. No longer can a mortgage banker limit his activity solely to residential financing, or indeed to any particular phase of that single operation, and obtain professional recognition. To reach the upper heights of success, to reap the rewards of flexibility, each mortgage banking organization should be —must be—qualified to handle loans of all types. By enrolling its young men in the School of Mortgage Banking, a company will be taking the first step in that direction. Each student who attends will receive a well-rounded picture of the entire mortgage banking industry; he will become cognizant of the important role his own job plays in his firm's over-all operation. He will have a greater feeling of belonging to his firm; a greater enthusiasm will be reflected in the quality of his everyday work output. Students eat and live together during each classroom session, thus encouraging personal association. A young man, attending these sessions, will have the opportunity of discussing mutual problems and ideas with other young men engaged in similar employment from all parts of the nation. Not only will business contacts result but he will have the opportunity of making friends which might well last a lifetime.

The course of study as outlined for the School, will be conducted on a level comparable to adult educational courses in any leading college or university. Those completing the course of study can justifiably feel proud of their efforts. It is not too much to expect that they be rewarded by their employer on the same basis as though they had completed an important prescribed course of study at a regular college or university.

The proof of any educational program lies in what it is able to accomplish. Here are excerpts from four unsolicited letters indicating reactions to our new program.

R. P. Russell, who has completed both Seminars, is a recipient of an MBA Certificate of Merit award and a member of our Educational Committee. He said:

> "As you know, I had the pleasure of having a small part in setting up the Mortgage Banking School as it now operates and I know that the curriculum thoroughly covers the field cf mortgage banking. It mixes theory and practices through lecture, panel discussion, informal discussion, correspondence work and examinations. The opportunity to learn and the association with others in the industry make the Mortgage Banking School a 'must' for every young man in the business. I believe a completion certificate from the School will go a long way toward establishing a base on which to build a mortgage banking career."

The second is from R. Manning Brown, vice president, real estate and Mortgage Loan Department, New York Life Insurance Company. He said:

"As you know, this Company has sent men to these educational seminars since the inauguration of the program. We have found the course to be most useful and beneficial not only because of the lectures and material presented by the instructors, but because of the advantage of informal discussions of mutual problems between the students.

"We have two men who hope to attend the School of Mortgage Banking, Course II. They have reported most favorably on Course I, which they took last spring, and are looking forward to renewing the acquaintances they made then and to participating in the next course this June. As we hope to send additional representation to Course I, we will be most interested in learning of your program for this June."

The third letter was from M. O. McKevitt, vice president, First National Bank of Chicago:

"As you know, we have enrolled some of our younger men in the educational programs at Northwestern University since their inception. Within the past year we have had occasion to compare the activities of these young men with those who have not been fortunate enough to attend this school, and we have felt that it might be interesting for you to know that in practically every case the progress of the young man having had this educational advantage has been at a more rapid pace than those not exposed to this type of education.

"Our boys in attendance have been enthusiastic about our continuing to send other young men—because of the advantages derived by them and because they have enjoyed meeting individuals from all parts of the country who are representative of the mortgage banking business.

"We will continue to enroll our boys in this wonderful endeavor of the Mortgage Bankers Association."

The last was from David E. Rozelle, recently promoted to position of assistant cashier of the Security Bank of Bethesda, Maryland. Mr. Rozelle attributes some of the credit for his promotion to what he learned at Course I last year:

"I must claim some small part of the credit for myself, but know also that the School of Mortgage Banking had much to do with the decision to put me in a position where I at least have one foot on the ladder."

To assure that those enrolled will derive the utmost in benefit from our School, we must limit Course I enrollment to 120 students. Last year we had a maximum enrollment. In fact, it was necessary for us to reject the applications of almost 40 students. Thus, it is necessary now to restrict registration solely to firms that are MBA members. All members, who have within their organizations young men whose performances to date indicate their ability to profit from a course of instruction such as ours, are urged to give serious thought to the further training of these men. Enroll them at once in our 1955 School of Mortgage Banking. They—and you—will gain by so doing.

10 YEARS OF THE MBA-NYU CONFERENCES

HOW stable is the current boom in housing construction? Entirely stable—if we analyze it with one set of facts. But probably not so sound—if you want to use another set. This question and others which have a direct bearing on this business of new construction and the financing of it came under critical review at this year's MBA-NYU annual Conference for Executives in Mortgage Banking in New York. It was the tenth anniversary for this activity, the oldest in MBA's educational program, and thus the occasion for some recognition of those who have been responsible for its success.

Dr. G. Rowland Collins, Dean of NYU's graduate school of business administration, made the opening talk to a capacity group.

Milton T. MacDonald, past president of MBA, was moderator of the first session which examined the question of "Are We Reaching the Saturation Point in Housing?". Dr. Herbert B. Dorau, professor of economics, and chairman of the real estate department of NYU, thought so and stated that housing today apparently has become a public responsibility and is being used as a lever in maintaining the country's economy; and that we can produce as many housing units as are desired by the socio-political economy.

Dr. Dorau concluded that this great bulge of housing that we have had has been "borrowed" from the future and we will have to "pay" for it later. Rodney Lockwood, past president of NAHB, disagreed. He contended that if we defined saturation as just having a roof over everyone's head, then we reached the saturation point many years ago. He underlined the fact that there exists a tremendous replacement market due to decay and depreciation in our older neighborhoods and that, because of the increase in population and the rapid movement to the suburbs, the need for additional housing is far from being fulfilled. Lockwood's conclusion was that we are in a rising and expanding economy and that we still have not satisfied everyone's desire for a home.

The conference next took up "The Demand for Housing." Carey Winston, vice chairman of MBA's educational committee, was chairman. Alexander Stott, comptroller of the American Telephone and Telegraph Company, spoke on "Population and Household Formation." He pointed out three major factors governing demand for housing: past birth rates, extension of life by medical science, and the growth of the suburbs. He said that although we have about exhausted the demand for housing of present family groups, the prospects for future new family group formations are promising.

Speakers table at the opening MBA-NYU luncheon; Albert E. Berkeley, president, New York MBA; Dr. C. Stewart Sheppard, associate dean, NYU graduate school of business administration; Lindell Peterson, MBA vice president; Dr. Herbert B. Dorau, professor of economics, chairman of the NYU real estate department; Milton T. MacDonald, MBA past president; Dr. G. Rowland Collins, dean of the graduate school; Rodney M. Lockwood, past president, National Association of Home Builders; Dr. Nathaniel H. Rogg, economist, National Association of Home Builders; Carey Winston, vice chairman, MBA Educational Committee; and Frederic S. Bayles, first vice president, New Jersey MBA.

At the third session, a luncheon meeting, the toastmaster was MBA President Wallace Moir. He introduced Dr. Roy L. Reierson, vice president of Bankers Trust Company, who spoke on "Where Is the Money for Mortgages Coming From?" Dr. Reierson predicted that we would have 1,300,000 housing starts in 1955 and that there would be a $13,000,000,000 increase in mortgage debt. He said further that he believed that mortgage money would meet competition from other sources of investment. Dr.

Reierson advised against using FNMA. Supplying additional mortgage credit which might create a further upsurge in building will create an element of instability.

A session on "The Investment Quality of Our Mortgages," was conducted by R. O. Deming, Jr., past president of MBA. Carton S. Stallard, vice chairman of MBA's Membership Committee, spoke on "The Place of Credit Analysis in Mortgage Banking." Mr. Stallard outlined a credit procedure to use such as that employed in connection with FHA loans, and sounded a word of caution, declaring this housing boom is occurring in a rising economy. He expressed the opinion that mortgage credit analysis is the only real control that we have over real estate inflation.

Dr. Gordon W. McKinley, chief economist for The Prudential Insurance Company, addressed the Conference on "Insured and Guaranteed versus Conventional Mortgages — A Look into the Future," and predicted that the government would either raise the rate of interest on FHA and VA mortgages or else would remove the ceiling, thereby allowing the rate to follow the market. Dr. John W. Harriman, professor of finance at NYU, spoke on the "Demand and Supply for Corporate Funds." His conclusion was that interest rates will tend to go higher because of corporate demand.

Lindell Peterson, MBA vice president, was chairman of the fifth session which looked into "The Outlook for Interest Rates." Dr. George T. Conklin, Jr., financial vice president of the Guardian Life Insurance Company of America, stated that he believes interest rates will rise as the demand for corporate funds competes with the demand for mortgage money. He stressed that the important indicator to watch was business and the trend of business and whether business was liquidating inventory or accumulating inventory and increasing receivables. Dr. Conklin's outlook for 1955 was one of basic restraint towards higher levels with slowly accumulating strength.

Again this year, as in the past, Dr. Jules I. Bogen, professor of finance at NYU, addressed the Conference. He spoke on "Federal Reserve and Treasury Policies," and predicted lower reserve holdings, increased margin requirements, a new long-term government bond (he was right), and an increase in the discount rates. Martin R. Gainsburgh, adjunct professor of economics at NYU, spoke on "The Economic Burden of Consumer and Mortgage Debt," which had as its theme the fact that there is no evidence that debt in relation to economic activity will be any higher than in 1954, when it was well below the safety margin. Professor Gainsburgh foresees continued high expansion of business activity through 1955 and on into 1956.

The last session was a luncheon meeting under the direction of Thomas E. Lovejoy, Jr., president of the Manhattan Life Insurance Company. Dean G. Rowland Collins spoke on "The Role of Building in Economic Management." Dean Collins pointed out that at the time these annual "economic retreats" were instituted, the government passed the "Full Employment Act" which has led to a new concept or way of life, namely that of a governmental managed economic life.

Certificates were presented to 31 members of MBA who have attended five conferences. Addison K. Barry, vice president of the National Newark and Essex Banking Company, and George H. Patterson, MBA secretary-treasurer, received Senior Associate Certificates for having attended all ten "economic retreats." Lindell Peterson, in behalf of MBA, presented Dean Collins with a set of matched luggage.

—William H. Lee, Jr.

A between-sessions explanation of the stability of the current building boom, the explainer, Dean G. Rowland Collins. Listening attentively are Rodney M. Lockwood, past president of NAHB; Dr. Herbert B. Dorau, NYU professor of economics; and Milton T. MacDonald, MBA past president.

VITAL STATISTICS fo

WITH housebuilding and mortgage activity responding with unexpected vigor to the broad recovery of business [1], apprehension is now being expressed that activity in these areas may be building up to a sharp let-down.

Here is what our figures show: FHA activity [7] is on an uptrend but only moderately so, so far as totals are concerned. However, a virtual elimination of rental mortgage activity offsets a 71 per cent increase over last January in applications for insurance on home mortgages. VA appraisal requests [7] are still at extraordinarily high levels, remaining well over twice those of last year at this time. Life insurance company support of these programs [6], particularly VA guaranteed loan activity, remains high. Mortgage recordings [5] continue to make records.

Housing starts [4] for January made a new record for the month, topping the previous record of 82,200 private units in 1951, and hit a seasonally adjusted annual rate of 1,424,000. Construction activity in January [3] showed only a small seasonal decline from December, but rang up these advances over a year ago: total private construction, 19 per cent ahead; new residential, 34 per cent; new nonresidential, 8 per cent.

Reacting to this and the other credit demands, money rates [2] moved perceptibly upward. Other indicators not shown on our tables also showed some reaction to the swelling construction demand. Wholesale building materials prices were up 0.1 per cent from December and 2.1 per cent from a year ago. Residential building costs, according to the Boeckh index, rose 0.3 per cent from December and were 0.9 per cent higher than a year ago. In other areas, trends, while in the same direction, were less pronounced.

Although it is too early to make much of this, it appears that an unseasonally vigorous market (produced in part by generally favorable weather through January) is generating its own brakes. There is still no reason to foresee anything but a year of moderate, healthy expansion.

(1). **General Business Indexes**
(1947-49=100)

	—1955-54—		—1954-53—		12 Months	
	Jan.	Dec.	Jan.	Dec.	1954p	1953
Industrial production*	131p	130	125	126	125	134
Wholesale prices	110.2p	109.5	110.9	110.1	110.3	110.1
Department store sales*	117e	117p	107	113	111	112

Sources: Federal Reserve Board, U. S. Department of Labor. eEstimated. pPreliminary.
*Seasonally adjusted.

(2). **Bond Yields**

	—1955-54—		—1954-53—		12 Months	
	Jan.	Dec.	Jan.	Dec.	1954	1953
Long-term U. S. governments:						
3¼% issue of May 1953, 1978-83	2.76	2.68	2.90	2.96	2.70r	—
Other long-term issues	2.65	2.57	2.68	2.79	2.53r	2.93
High-grade municipals (Standard & Poor's)	2.39	2.33	2.50	2.59	2.37	2.72
Moody's corporates, total	3.15	3.13	3.34	3.39	3.16	3.43
Moody's Aaa corporates	2.93	2.90	3.06	3.13	2.90	3.20

Source: Federal Reserve Board. rRevised.

S for the Mortgage Banker

(3). Expenditures for New Construction Put in Place
(millions of dollars)

	—1955-54—		—1954-53—		12 Months	
	Jan.[p]	Dec.	Jan.	Dec.	1954	1953
Private	$2,027	$2,202	$1,710	$1,917	$25,720	$23,877
Residential (nonfarm)	1,091	1,214	816	951	13,450	11,930
Nonresidential building	527	534	486	507	6,189	5,680
Public utility	302	349	299	347	4,400	4,416
Farm and other	107	105	109	112	1,681	1,851
Public	734	783	734	795	11,450	11,379
Total	$2,761	$2,985	$2,444	$2,712	$37,170	$35,256

Source: U. S. Departments of Commerce and Labor. [p]Preliminary.

(4). Number of Nonfarm Housing Units Started

	—1955-54—		—1954-53—		12 Months	
	Jan.[p]	Dec.[p]	Jan.	Dec.	1954[p]	1953
Private	87,800	89,600	65,100	64,500	1,200,800	1,068,300
Public	200	1,400	1,300	1,300	19,400	35,500
Total	88,000	91,000	66,400	65,800	1,220,200	1,103,800

Source: U. S. Department of Labor. [p]Preliminary; figures are revised three months after issuance.

(5). Recordings of Nonfarm Mortgages of $20,000 or Less
(millions of dollars)

	—1954—		—1953—		12 Months	
	Dec.	Nov.	Dec.	Nov.	1954	1953
Savings and loan associations	$ 784	$ 757	$ 569	$ 564	$ 8,312	$ 7,365
Commercial banks	420	400	291	290	4,239	3,680
Insurance companies	191	177	126	114	1,768	1,480
Mutual savings banks	158	147	128	113	1,501	1,327
Mortgage companies and others	714	667	508	468	7,154	5,895
Total	$2,267	$2,148	$1,622	$1,549	$22,974	$19,747

Source: Home Loan Bank Board.

(6). Mortgage Acquisitions by Life Insurance Companies
(millions of dollars)

	—1954—		—1953—		12 Months	
	Dec.	Nov.	Dec.	Nov.	1954	1953
Nonfarm	$588	$538	$433	$327	$4,921	$3,918
FHA	62	80	66	60	673	819
VA	208	183	81	56	1,377	457
Other	318	275	286	211	2,871	2,642
Farm	43	33	45	25	413	417
Total	$631	$571	$478	$352	$5,334	$4,335

Source: Institute of Life Insurance. Data include nonresidential as well as residential mortgages.

(7). Applications to FHA for Insurance on New Construction, and Appraisal Requests to VA on New Construction
(number of units)

	—1955-54—		—1954-53—		12 Months	
	Jan.[p]	Dec.	Jan.	Dec.	1954	1953
FHA applications	26,067	24,594	24,333	21,497	383,334	327,323
Units in home mortgages	25,647	24,328	15,007	13,386	338,581	253,726
Units in project mortgages	420	266	9,326	8,111	44,753	73,597
VA appraisal requests	46,204	44,251	20,124	19,016	535,412	251,437

Sources: Federal Housing Administration, Veterans Administration. [p]Preliminary.

Next Stop in MBA's 1955 Schedule of Meetings Is Tulsa Mortgage Clinic

The constantly-changing conditions in the mortgage and money markets, the new things in the business such as VHMCP, renewed attention to some old things in the business such as the conventional loan and some heavy emphasis on an increasingly important part of the business, servicing—these are some of the subjects which will make up the next two programs in MBA's 1955 schedule of regional meetings.

With Chicago's Midwestern Mortgage Conference just concluded, the MBA program turns to:

» Tulsa, Hotel Mayo, March 28-29, Southwestern Mortgage Clinic.

» Birmingham, Hotel Dinkler-Tutwiler, March 31-April 1, Southern Mortgage Clinic.

Both are full programs with more than the usual number of speakers and subjects. The local groups in both cities have worked hard to make the Clinics good ones and members who can attend are assured of a pleasant and profitable experience.

The Tulsa Clinic will open with an address by President Wallace Moir on "An Up to the Minute Exposure of the Mortgage Picture." It will be followed by a panel discussion of "Your Stake and Responsibility in the Voluntary Home Mortgage Credit Program" with Vice President Lindell Peterson moderating. Participants include:

R. O. Deming, Jr., president, The Deming Investment Company, Oswego, Kansas.

Arthur W. Viner, executive secretary, National Voluntary Mortgage Credit Extension Committee, Washington, D. C.

Thomas J. Sweeney, VA assistant deputy administrator, Washington, D. C.

Henry H. Edmiston, financial vice president, Kansas City Life Insurance Company, Kansas City, Missouri.

Paul J. Vollmar, Jr., Realty Mortgage and Investment Company, Albuquerque.

At the luncheon meeting the opening day MBA counsel Samuel E. Neel will discuss capital developments. That afternoon the session will begin with an address on the supply of mortgage funds in the months ahead by S. Van Berschot, Continental Assurance Company, Chicago. It will conclude with a panel discussion on servicing, moderated by B. B. Bass, president, American Mortgage and Investment Company, Oklahoma City. Participants will include:

M. J. Mittenthal, president, N. E. Mittenthal & Son, Inc., Dallas.

Dale M. Thompson, president, City Bond and Mortgage Company, Kansas City, Missouri.

W. James Metz, MBA director of accounting and servicing.

William C. Weaver, Jr., vice president, The National Life and Accident Insurance Company, Nashville.

The third and final session of the Tulsa program will be Tuesday morning with a discussion of acquisition, appraisals, closing, warehousing and sales of mortgage loans, with Aubrey M. Costa, president, Southern Trust & Mortgage Company, Dallas, moderating. Participants include:

John Crew, vice president, T. J. Bettes Company, Oklahoma City.

Ernest P. Schumacher, executive vice president, United Service and Research, Inc., Memphis.

E. Gordon Smith, vice president, Lawyers Title Insurance Company, Dallas.

Lawson M. Watts, vice president, First National Bank in St. Louis.

Cecil Laughlin, president, Republic Mortgage Company, Inc., Fort Smith, Arkansas.

And from Tulsa the MBA Meetings Turn Southward for a Clinic in Birmingham

The Birmingham Clinic will open with an address by President Moir on "Who's Playing the Lead in the Latest Mortgage Picture." It will be followed by a panel discussion of "Your Stake and Responsibility in the Voluntary Home Mortgage Credit Program," with Ehney A. Camp, Jr., vice president, Liberty National Life Insurance Company, Birmingham, moderating. Participants include:

R. H. Dobbs, Jr., president, Life Insurance Company of Georgia, Atlanta.

Brown L. Whatley, president, Stockton, Whatley, Davin & Company, Jacksonville.

At the luncheon meeting the opening day, Earl B. Schwulst, president. Bowery Savings Bank, New York, will talk on "The Role of Savings Banks in the 1955 Mortgage Market." That afternoon the session will begin with an address by Dr. George T. Conklin, Jr., adjunct professor of finance, New York University and financial vice president, Guardian Life Insurance Company of America, New York. It

Earl Schwulst

Cecil Laughlin

W. J. Bashaw

H. A. Drake

Brown L. Whatley

Wallace Moir

Robert Tharpe

John C. Hall


Henry Edmiston


E. P. Schumacher


R. Manning Brown


George T. Conklin, Jr.


E. A. Camp, Jr.


B. B. Bass

will conclude with a panel discussion on servicing, moderated by W. James Metz, MBA director of accounting and servicing. Participants will include:

M. J. Mittenthal, president, N. E. Mittenthal & Son, Inc., Dallas.

Joe Jack Merriman, vice president, Merriman Mortgage Company, Kansas City, Missouri.

Frank W. Reed, trust officer, The First National Bank at Orlando, Orlando, Florida.

William C. Weaver, Jr., vice president, The National Life and Accident Insurance Company, Nashville.

R. Manning Brown, Jr., vice president, New York Life Insurance Company, New York.

The third and final session of the Birmingham program will be Friday morning with a discussion of acquisition, appraisals, closing, warehousing and sale of mortgage loans, with John C. Hall, president, Cobbs, Allen & Hall Mortgage Company, Inc., Birmingham, moderating. Participants include:

Robert Tharpe, president, Tharpe & Brooks, Inc., Atlanta.

Ernest P. Schumacher, executive vice president, United Service and Research, Inc., Memphis.

George Houston, vice president, Commerce Title Guaranty Company, Memphis.

John Hand, executive vice president, First National Bank of Birmingham.

The session will conclude with an address by MBA Counsel Samuel E. Neel on "How the Washington Picture Is Changing."

Programs and registration cards for both Clinics have been sent to members in the two areas which these meetings are designed to serve. Prompt hotel reservations are requested. If you did not receive an announcement of these Clinics and find you can attend, please advise the headquarters office.

MORTGAGE MARKET

(Continued from page 19)

flow of mortgage money is warranted and that free and unrestrained use of the easiest mortgage credit is not today's wisest policy. General business is good and the prospects are indeed bright, but an unbridled building market is not the best way to maintain a sound business structure. The federal reserve management of monetary policy is still a vital controlling factor and its constant evaluation must be our role in our relationship with our principals.

PERSONNEL

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

MORTGAGE BANKING EXECUTIVE

Growing Texas Mortgage Company with established servicing accounts and mortgage outlets has opening for experienced man capable of assuming heavy responsibility, with opportunity to become chief executive. The job carries an adequate salary, stock ownership and insurance participation. This is a real opportunity for the right man, but please do not answer unless you are thoroughly qualified by experience and demonstrated ability, and you want to live in Texas. Full details of your experience are requested, and your reply will be held in confidence. Write to Box 327.

Mortgagee in Southeast servicing $45,-000,000 wants best man available to open branch office. Write Box 330.

MANAGER WANTED

Growing New York mortgage institution presently servicing $100,000,000 in mortgages. Must be experienced, have complete knowledge of servicing procedure and mortgage origination. Must also be capable of assuming complete responsibility of all detail work and supervision of staff. Write giving complete background of experience and salary desired. Write Box No. 332.

EXECUTIVE TRAINEE

We are seeking an above average young man who is not yet thirty, and who desires to make mortgage banking his career. To that man, our youthful, progressive and rapidly expanding company offers an unusual opportunity. Write to J. I. Kislak Mortgage Corp. of Florida, P. O. Box 1861, Miami 30, Florida.

Other MBAs

1955 Mortgage Funds Reasonably Plentiful

Construction "will again be the fair-haired boy of the country's economy this year, housing starts will remain high but maybe not at the 1954 level and mortgage money is going to be reasonably plentiful," President Wallace Moir told members of the Chicago MBA at their annual meeting, the first of a series of engagements he kept during a busy schedule in late January.*

"Money won't be as plentiful as it was last year but there should be enough to do the job," he said.

"In one aspect of mortgage financing, we have reached the end of the road—that is, in the loan-to-value ratio which governs the size of a mortgage loan. Thirty years ago the ratio was 50 per cent and now we have come to the full 100 per cent, no-down-payment 30-year loan as far as some government-backed mortgages are concerned.

"Most of the decisions regarding money supply, and the rate and terms for the use of money, will be made by the Federal Reserve Board and the Treasury. We may be, at this moment, on the door-step of another significant change in our monetary affairs which, in recent years, have gone from easy money to hard money, from that to 'active ease' to the more recent just 'ease.' The Federal Reserve Board will be under the greatest pressure to avoid interference with business expansion but, with the good judgment the agency has used in the past, may dictate a forceful policy of moderation in controls of the securities markets, inventory buying and in building activity. As for the latter, I think I sense a growing concern on the part of the Federal Reserve for the rapidly mounting mortgage debt. While the highest officials concerned with housing in Washington have disclaimed any thought of a renewal of direct controls in this field, the rate at which mortgage debt has mounted has, I believe, become a source of anxiety for those charged with the management of our fiscal affairs."

*His itinerary was: January 19, Mortgage Finance Panel, NAHB Convention, Chicago; January 20, Chicago MBA; January 25, Mortgage and Real Estate Forum of the Savings Banks of New York; January 26, MBA-NYU Senior Officers Conference, New York; January 26-27, House and Home Forum, New York; and January 27, Philadelphia MBA.

Officers elected by Chicago MBA for the new year include Irvin R. Schildein, Quinlan and Tyson Mortgage Corporation, president, (second from left) John R. Womer, Great Lakes Mortgage Corporation, vice president, and Martin O. McKevitt, The First National Bank of Chicago, secretary-treasurer. With Mr. Schildein are, left, George H. Dovenmuehle, Chicago, MBA President Wallace Moir and F. Z. Gifford, retiring president.

Directors elected were Stephen G. Cohn, Greenebaum Mortgage Company; F. Jay Decker, F. Jay Decker Co., Peoria; Henry W. Kennedy, McKey & Poague, Inc.; Marvin A. Reynolds, Merchants National Bank in Chicago; Fletcher Seymour, Lake Michigan Mortgage Company; Stewart Van Berschot, Continental Assurance Company and Robert H. Wilson, Percy Wilson Mortgage & Finance Corporation.

Louisiana MBA Elects Clarence Legendre of New Orleans President

Clarence A. Legendre, president, Standard Mortgage Corp., New Orleans, was elected president of the Louisiana MBA, succeeding Darwin G. Nichols, of Monroe.

Others elected included Louis P. Wolfert, vice president; John Dane Jr., vice president; and Lloyd Adams, secretary-treasurer. All are New Orleanians.

Elected to the board of governors were T. Hendon Blaylock, Shreveport; Tyler Bland, Alexandria; Raymond Kron, Baton Rouge; Gus Gehr, New Orleans; W. W. Balter III, New Orleans; Ralph Baucum, Shreveport; and Mr. Nichols.

Blaylock addressed the group on the IBM system and Gehr on the VHMCP. Mrs. Claire Loeb, Lionel Adams, John Dutel, all of New Orleans, and Baucum made up a panel discussion on title insurance.

Ralph A. Agate Jr. of New Orleans and Harry Allen, Shreveport, were speakers representing FHA, and Joseph Finley, New Orleans, represented the VA administration.

George W. DeFranceaux, executive vice president, Frederick W. Berens Sales, Inc., Washington, D. C., announced that **Gerard J. Manack** was elected senior vice president in charge of its Single Source Financing Service for builders and mortgage firms. Mr. Manack was formerly the loan closing attorney for FHA and joined the Berens' organization in 1951.

The Philadelphia Saving Fund Society has elected **R. Stewart Rauch, Jr.** president to succeed **J. Hamilton Cheston,** who retired for reasons of ill health. Cheston served as president since 1949 and has long been a leader in Philadelphia both in business and civic affairs and is President of the National Association of Mutual Savings Banks.

Thomas J. Melody, formerly of Des Moines, Iowa, has joined the staff of the Lomas & Nettleton Company, New Haven, as mortgage service officer with supervision over the company's mortgage operations.

The appointment of Melody was announced by Donald E. Nettleton, president, who said Melody would be connected with the accounting department in the home office.

Appointment of three city mortgage managers for The Mutual Benefit Life Insurance Company was announced by **Paul A. Nalen,** vice president and manager, city mortgage and real estate investment department.

The appointees are **Walter S. Allen, Frank C. Taylor** and **Alfred F. Ricker.**

The International Brotherhood of Electrical Workers (AF of L) has pur-
the American Standard Life Insurance
chased the majority stock interest in
Company of Washington, D. C., as an investment for the pension fund of the union. This company was incorporated in 1924 and is a legal reserve stock life insurance company, authorized to write all types of life insurance. President of the company is **Oliver M. Walker,** MBA board member and **W. Laird Dunlop, III,** is vice president.

First Mortgage Corporation of Detroit established a branch office in Dayton, **Sidney Kaye,** executive vice president, announced. The office will be managed by **Robert W. Mong** at 1049 Third National Building in Dayton.

B. B. Bass has been elected president of American Mortgage and Investment Company, Oklahoma City and **Maurice F. Haight** has been named first vice president.

R. Manning Brown was elected vice president of the real estate and mortgage loan department of New York Life Insurance Co. He will assume direction of the department upon the retirement of Vice President Charles R. Van Anden. Mr. Brown joined the company as assistant vice president in 1951 after serving for fifteen years with the General Motors Acceptance Corporation and was made second vice president in 1953.

Frederick W. Berens, Inc. of Washington, D. C., which made the first FHA loan years ago, also made the first two mortgages under the Voluntary Home Mortgage Credit program. Guardian Life Insurance Company purchased the mortgages.

BURNS ON BUSINESS

(from page 21)

In forming a judgment concerning the economic outlook, we may justly draw encouragement from the fact that our economy met rather successfully the test of stability in 1946, in 1949, and again in 1954. We may justly draw further encouragement from the fact that the government has recently demonstrated a capacity to help check economic recession without embarking on huge spending programs and mounting deficits. No one can be sure how well our economy will meet its next test of stability. The outcome is likely to depend heavily, however, on the degree to which we succeed in preventing our confidence in the economic future from spilling over into over-confidence and unbridled speculation. We have been relatively successful in recent years in concentrating our efforts, as a people, on activities of production rather than on activities of speculation. If we can avoid the illusion that we are living in a new era in which the business cycle no longer has any place, there is a good prospect we will continue.

WHERE TAXES GO

March is the time when we realize how they've increased

MORE than \$4 out of every \$5 of the country's tax load—federal, state and local combined — are obtained from tapping the same revenue sources by two or more levels of government.

This multiplication of the burden, as far as millions of individuals and much of business is concerned, is disclosed in a recent study made by the Treasury showing the growth of the tax structure since the turn of the century and the prevalence with which taxes now overlap.

The study provides a significant commentary on one of the major problems of the times—the high cost of government at all levels in the United States today and its impact on the people and on the economy. Governmental tax revenues combined equal more than a quarter of the entire national income, but even this has not been enough to balance income with outgo.

In contrast to the general separation of revenue sources which prevailed a generation or so ago, most tax categories are now employed by both federal and state governments, and to some extent by local governments as well. An outstanding example is the income tax, corporate and individual, the dominant source of governmental revenue in this country. Estates and gifts are also involved, as are liquor, tobacco, gasoline and many other products and services. In certain parts of the country, some of these items are taxed three and even four times from the federal to the local level.

All these overlapping taxes together made up about \$70 billion of the record \$84 billion tax bill, exclusive of employment taxes, that the American people paid in the 1953 fiscal year, the latest complete figures available. Three-quarters of these aggregate tax revenues went into the federal coffers, with the balance about evenly divided between State and local governments.

The figures show that over-all tax revenues have quadrupled in a period of little more than a decade, and are now about 60 times what they were at the turn of the century. By far the biggest rise, proportionately as well as in dollar amount, has occurred at the federal level, largely because of the cost of war, "hot" and "cold," and expanded government services. Total federal revenues are now well over 100 times what they were a half century ago. The equivalent rates of growth for state and local tax revenues in the period are about 70 and 15 times, respectively.

Despite this rise in tax revenues, governments at every level are still hard pressed to make ends meet. The federal budget, in fact, is currently running several billions "in the red" despite substantial cuts in expenditures. The problem here has been complicated by recent tax reductions and high defense costs.

There are a few vestiges left of the one-time simplicity in the tax structure. The most important of these is the property tax, now as in the past a predominantly local government levy and the backbone of local revenues. Property taxes brought \$9 billion into the local government till in the 1953 fiscal year, and represented nearly 90 cents of their tax dollar. Most states still retain a property tax, but the aggregate yield is only a few hundred millions a year and only in Nebraska does this levy represent an important item of revenue.

The states have a source of revenue all their own in motor vehicle registration and license fees. All 48 states have this impost, which in the aggregate brings in a billion dollars a year and makes up about a tenth of all state revenue. Customs duties are a monopoly of the federal government, but their yield is not much over a half billion dollars a year, an insignificant item in the federal budget these days.

Overlapping has been going on in corporate and individual income taxes from the very beginning of these levies. Some states adopted this method of taxation at the same time as the federal government four decades ago. About two-thirds of the states now levy corporate and individual income taxes, and in recent years a large number of cities, in Pennsylvania, Ohio and Kentucky, have also imposed income taxes in their search for new sources of revenue.

Overlapping of sales taxes at state and local levels has become quite common. Many of the products involved are taxed at the federal level as well, in the form of excises.